



AMERICAN BANKERS ASSN. JOURNAL

Two Per Cent on Reserve Balances

An Authorized Interview With
D. R. CRISSINGER
Governor of the Federal Reserve Board

The Problems of the Smaller Banks as Viewed by the Head of the Federal Reserve System. What the Board May and May Not Do. Reserves in the Bank's Own Vaults. How the Payment of Two Per Cent Would Affect Financial Operations.

CONGRESS soon will be told why thousands of eligible state banks and trust companies have failed to join the Federal Reserve system. If any doubt prevailed at the outset as to the reasons actuating the banks in holding aloof, this has been effectually dispelled by the inquiry conducted by the Joint Congressional Committee, which shortly will submit its report to the Senate and the House of Representatives. It has found that there is a surprisingly general agreement among the banks on this point.

"We don't come in"—the banks have united in saying—"because it wouldn't pay us. The Federal Reserve system will not pay interest on our reserve balances while we can now obtain 2 per cent interest from reserve city banks on these funds. Joining the system would make the clearing of checks at par mandatory, thus depriving us of the revenue growing out of exchange charges. We can get virtually all of the accommodations offered by the Federal Reserve system without taking out membership and incurring the overhead expense. And, then again, we do not want to make out the various and voluminous reports that the Board requires."

To what extent the objections cited by the banks, the greater number of which are located in small cities, might be overcome was the question put up to Daniel Richard Crissinger, Governor of the Federal Reserve Board and the directing head of America's financial system. The problems of the small banks are known as realities—not theories—to Governor Crissinger. When he answered the call to service as Comptroller of the Currency sounded by his boon companion, Warren G. Harding, Mr.

Crissinger was president of the City National Bank in Marion, Ohio. An interesting sidelight on the relations existing between Governor Crissinger and the late President was afforded recently when Mr. Crissinger confessed that Mr. Harding appointed him Comptroller of the Currency without consulting him and later elevated the Comptroller to the head of the Federal Reserve Board without inquiring if he would accept the position at the helm of the Nation's banking system. Born in a log cabin out in Marion County, reared in a small community and later the owner of several large farms, the present Governor of the Federal Reserve Board knows something of the conditions surrounding the operations of banks in the agricultural centers. And it is in these farming centers where non-member banks are thickest. For fifteen years president of a bank in that Ohio city, Mr. Crissinger has a sympathetic attitude toward that shrewd band of David Harums, who direct the destinies of these institutions.

Interest on Balances

AS Comptroller of the Currency, Mr. Crissinger came in intimate touch with more than 8000 national banks. The pointed remarks that the bank examiners made upon those yellow sheets—the confidential and highly interesting part of the semi-annual bank examination—doubtless gave him an exceptional conception of just what obstacles stand in the way of the banks coming in. One of the outstanding qualifications that Mr. Crissinger had to commend him to the President as the head of the Federal Reserve system, aside from his

personal qualities, was his knowledge of the problems of the small town bank.

"Why cannot the Federal Reserve system pay 2 per cent interest on reserve balances?" Governor Crissinger was asked.

"The payment of interest on reserve balances is fundamentally wrong," he responded. "It would impose a burden upon the banks of making sufficient money to pay the item of interest over and above the operating expenses, dividends and a proper charge-off. In the year 1923 the Federal Reserve banks made a total of \$12,711,286. After paying the dividends and allowance for surplus, there remained for the Government as a franchise tax \$3,613,056. Had the banks been required to pay 2 per cent interest on reserve deposits of member banks, it would have imposed upon the banks the additional burden of paying \$37,450,140. In other words, the payment of interest would have caused a loss to the banks of the system in the sum of \$24,738,854; that is to say, this loss would have been sustained, and the member banks would not have been paid their dividend, nor would there have been anything to transfer to surplus.

"You will readily see if the banks were required to pay 2 per cent interest on the reserve balances that the total amount of interest to be paid would require the Federal Reserve banks to go into the open market in competition with member banks to buy short-time Government securities or bankers' acceptances in order to provide a necessary fund to pay the interest (say nothing about paying dividends) to member banks and providing a charge-off and franchise tax. The requirement to pay interest might induce member banks to become more inclined

to rediscount and borrow money from the Federal Reserve banks in order that they might receive their 2 per cent interest on reserve balances. This would tend to extend the member bank.

"You will note if the Federal Reserve banks went into the open market in order to provide a fund to pay \$37,450,140 as interest to member banks, it would require the pushing into the market for short-time Government securities and acceptances, a contribution of approximately \$1,000,000,000, and this in addition to the earning assets of about \$1,000,000,000 in 1923, which was necessary to make a net earning of \$12,711,286. This feeding cash into the market would tend to cause very cheap money and start, very likely, an inflation.

High Discount Rate Might Be Necessary

"THE same was true in 1922, when the banks would have lost, in the entire system, in round numbers, \$19,000,000. During the years 1919, 1920 and 1921 the banks could have paid 2 per cent interest on reserve balances, but it must be remembered that these were war-condition years, and they are never likely to occur again; at least, I hope so. If, however, the banks did not go into the open market to build up approximately \$2,000,000,000 of earning assets, which, of course, will include rediscounts, it might be necessary to keep the discount rate high in order to make the operating expenses and the interest on reserve balances. This, of course, would be a very onerous burden upon business and commerce and would be the worst handicap that could be placed upon the prosperity of the country."

Bugaboo Number Two on the list of the outside banks is par collection of checks. All members of the Federal Reserve system are required to remit at par, not being allowed to deduct from the face of the check any charge for cashing it. A good number of the smaller banks derive tidy incomes from the exchange fees that have been realized through the performance of this service. Quite naturally, they are loath to give up this source of income. The system has come in for a round of criticism in certain districts, where the regional banks adopted coercive methods to force even the non-member banks to remit at par, but these practices were ordered abandoned by the Federal Reserve Board several months ago.

"What is the present attitude of the Federal Reserve Board in the matter of par collection?" the Governor was asked.

"The Federal Reserve banks, with the Board's approval, are handling the par collection of checks in the manner indicated by the Supreme Court of the United States in its recent decisions. That is to say, it is permitting non-member banks to par their checks or not, as the non-member bank elects. The par collection is purely voluntary on the part of the outside banks. No coercive methods are now being employed to bring about par collection."

The Board recently had prepared a booklet, describing in detail how checks are cleared. It was claimed that the banks, while sacrificing the fees formerly collected in exchange, gained more than they lost by

virtue of the speed with which checks are now converted into cash.

Two Toll Gates

GOVERNOR CRISSINGER, in answering the query whether it was essential that the small banks should join the Federal Reserve system candidly admitted that he did not regard their addition as vital. The real boon, in his opinion, is gained by the community.

"It is not at all essential to the system that the small banks should join the Federal Reserve system," Mr. Crissinger continued. "If the state banks would join the system generally, it would be beneficial to the communities in which such banks operate. As non-member banks now get their benefits from the Federal Reserve system indirectly through correspondent banks, they do not tap the credit reserve by direct communication with the Federal Reserve banks. Their failure to have direct connection with the Federal Reserve banks places two toll gates on the community that does business with non-member banks before the business of the community can have access to the benefits which the Federal Reserve system gives to the country.

"You will understand the non-member bank must, if it desires to receive help, get its accommodations through a member bank of the system. The correspondent bank of the non-member bank gets its accommodations from the Federal Reserve bank. Suppose, therefore, the discount rate is $4\frac{1}{2}$ per cent to the member bank. The member bank passing on the credit of the non-member bank charges a commission of, say, 1 per cent to 2 per cent, which makes the rate to the non-member bank $5\frac{1}{2}$ per cent to $6\frac{1}{2}$ per cent. The non-member bank then charges the customer of its bank a commission of 1 per cent to 2 per cent. So that thus the customer of the non-member bank is compelled to pay two commissions for the accommodation, and, as above stated, two tolls are taken before the farmer or business man in the community served by non-member banks gets his credit accommodation." "Has the Board estimated just how much it actually costs to join the system?"

"The estimated cost of a non-member bank joining the system is negligible in comparison with the benefits derived," he replied. "It is true that they would lose 2 per cent or 3 per cent on their reserve balances carried with correspondent banks, but the balances so carried are much larger than is required in the Federal Reserve system. It would appear that the accommodations which the Federal Reserve banks could give to the little bank with a $4\frac{1}{2}$ per cent discount rate would enable any bank to more than compensate itself for the losses incurred by interest on reserve balances in correspondent banks, to say nothing of the other general service rendered to member banks."

No Unnecessary "Red Tape" In Reserve System

"WHETHER or not the Federal Reserve system merits the charge, the statement that joining will bring a mass of red tape has been widely circulated," the writer observed. "Is this exaggerated?"

"It is not true that there is any unneces-

sary 'red tape' in the operation of the Federal Reserve system which is passed on to the small banks," the Governor replied. "It is equally untrue that 'endless and voluminous' reports are required. The banks are operated in accordance with the Federal Reserve Act, and the burdens upon member banks are minimized as much as possible and are kept within the spirit of the law. Efforts are being made by the Board and banks all the time to simplify the bank operations, having in mind all the time the requirements of the law and the safety of the system.

"The Federal Reserve system is less than ten years old, the provisions of the law are not thoroughly known and, judging from some criticisms, the Board has been blamed for a number of things, which are regarded as its own discretionary acts, but which are mandated by Congress," it was ventured.

Law Determines Action Not Discretion

"IT is true that the Federal Reserve Board is blamed for a number of things which are imposed upon the Board and the banks by the Federal Reserve Act and which are not at all discretionary upon the part of the Board or banks. For instance, Section 19 of the Federal Reserve Act provides that 'no member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal Reserve bank under the provision of this Act, except by permission of the Federal Reserve Board.' It will be noted that the complaint that the Federal Reserve banks refuse to discount for non-member banks is wholly provided for by the Federal Reserve Act.

"There seems to be a wrong conception in the minds of a great many people as to who owns the Federal Reserve banks. The Act provides that the Federal Reserve banks belong to the stockholders, that is, the member banks of each Federal Reserve bank, and the rights and privileges conferred by the Federal Reserve Act are for member banks alone and not for non-member banks, except as they derive their benefits through correspondent member banks. Permission to rediscount through member banks has been granted a number of times by the Federal Reserve Board in order to help out state non-member banks, and in order to help communities that were afflicted by banking conditions brought about largely by the failure of non-member banks to become associated with the Federal Reserve system whereby they could directly help the business interests of the community. It might be well to remember that the above-quoted provision of the Federal Reserve Act was carried into the Intermediate Credits Act, where it was expressly provided that 'no Federal Reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the endorsement of a non-member state bank or trust company which is eligible for membership in the Federal Reserve system, in accordance with Section 9 of this Act.'

"This clearly shows the purpose of Congress to debar non-member banks from the use and facilities of the Federal Reserve system for the reason that they contribute

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Making Sound Public Opinion

By EVANS WOOLLEN

President, Fletcher Savings and Trust Company, Indianapolis

Need of Understanding Between Those Who Have and Those Who Have Not. Property Rights Best Defended on the Grounds of Usefulness. Government by Jailing Can Not Put Down Communism. Sportsmanship in Law Observance.

IF one were trying to express in a single phrase the primary function of a trust company he could not do better perhaps than to say, "the conservation of property." We represent institutions that undertake to conserve property beyond today into the far future. The success of the undertaking depends of course on the continuance of property-right and the enforcement of that right by efficient government. In turn the continuance of property-right and the existence of efficient government in this land of universal suffrage depend upon the dominance of sound public opinion. For the making of sound public opinion about property-right there must be understanding. More than anything else we need understanding. We need understanding between those who have and those who have not, between "the better off" and "the worse off"; understanding between those who employ and those who are employed, between those who work with their brains and those who work with their hands. Understanding between all these is possible but understanding is impossible between the Bourbon and the radical. Accordingly, a contribution on our side to understanding between those who have property and those who have votes, to the understanding that makes sound public opinion about property-right, is the avoidance of Bourbonism.

Reexamine Our Conception of Property Rights

IS it possible, in the first place, that some of us may well reexamine our conception of property-right? On such reexamination some of us perhaps would find ourselves assuming property-right as an institution that in its present form always was—and always must be—unchangeable. Whereas the fact is of course that property-right is defended most soundly not on the ground that it is an institution which in its present form always was and always must be but on the ground of usefulness to society, on the ground that, as a basic element of our civilization, it has justified itself and still justifies itself by serving the common good.

We were reminded of this fact that property-right is not unchangeable when we found government taking property at the owner's death and learned that the right of inheritance is after all only a statutory right. An inheritance tax then is challenged most effectively, as a capital tax or any other governmental taking of property is challenged most effectively, not by attempt to invoke unchangeable rights but by question whether

the proposed governmental taking would serve the common good.

Best Defended on Grounds of Usefulness

OUR answer always is of course that it would not serve the common good insofar as it would impair the initiative without which in our opinion the world could not so well get on. If those who own property and those who are charged with its conservation recognize this fact that property-right is best defended not on grounds of tradition but on grounds of usefulness there is chance through open-minded discussion for understanding between them and those who vote. President Hadley puts it thus: "Property-right is not a sacred thing set apart or consecrated as an end in itself. * * * By giving up the assumption that his property-rights are sacred, the property owner puts himself in a position to discuss the question whether they are useful to society; with a good chance of being heard, and a fair chance of being understood by the people as a whole." On the other hand, with the Bourbon who holds that property-right, unchangeable in all its aspects, is not discussable in any aspect there is no chance for understanding. There is chance for clash. He promotes the class consciousness that is his danger and the danger of those whose business it is to conserve property into the future.

Is it possible, in the second place, that some of us may well reexamine our conception of free speech? Thus also we may help, each his mite, to avoid misunderstanding between Bourbon and radical. On such reexamination some of us perhaps would find ourselves assuming free speech as the right of those who accept the political and social institutions in which we believe. Whereas the fact is of course that free speech, short of incitement to law-breaking, is the right of all of us. It is the right of the communist and the socialist as much as it is the right of you and me. If we who believe in our political and social institutions recognize this fact that free speech, short always of incitement to law-breaking, is the right of those whose ideas we dislike not less than of those whose ideas we like we promote the chance of understanding.

Indeed, let us go farther and say that we had better abate somewhat of our zeal for repressive legislation. By it we only reveal again how plagued we are by the obsession that all good things can be had from legislation. Let us go still farther and say that

for expediency, for the sake of not driving underground the agitation that otherwise would spend itself in the air, we had better in times of peace not be too eager in putting our influence on the side of jailing the talker before "he actually starts to do something." Government, by jailing, can put out the communist and the socialist but government, by jailing, cannot put down communism or socialism. That is the task of those who think straight and discuss generous-mindedly. Moreover, if the political and social institutions in which we believe will not withstand the free speech of those who do not believe in them then we are in a bad way and our trust companies are not likely to conserve property into the far future.

The Law of Property and the Law of Liquor

IS it possible, too, that some of us may well stiffen our thought and our conduct in the matter of law observance? I am not thinking of our duties as citizens. I am not urging ethical considerations. I am urging business considerations. I am thinking of our duties as officials of trust companies charged with the conservation of property. And so thinking, I ask: By what right may we who have expect that he who has not will more respect the law of property than we respect the law of liquor. Sportsmanship does not expect the other man to keep the rules that we deny. It is not playing the game. And here in this democracy we all have to play the game together. A democracy gone wrong is a terrifying thing. A more terrifying thing than the murders at Herrin was the breakdown of civil government at Herrin. It broke down because it was not supported by sound public opinion. It is breaking down less dramatically but terrifyingly at other points. Government that neither prevents nor punishes murder, that breaks down under strain, is a poor reliance for the enforcement of property-right, and such government is the penalty for failure of sound public opinion in the matter of law observance.

Is it possible, finally, that some of us may well readjust our attitude with reference to one phase of the problem of capital and labor? The problem is at the bottom of the capitalistic organization of society to which we as conservators of capital are committed and for the perpetuity of which we are profoundly concerned. This is not the time to discuss the open shop but it is not inappropriate, I trust, to urge, on behalf of the understanding our business needs, that

those who advocate the open shop should do so straightforwardly and should not strike at unionism under the guise of patriotism. Every straight-thinking person favors the open shop if the phrase means, and means only, the right, without interference, to employ whomsoever, whether unionist or non-unionist, and the right of whomsoever, whether unionist or non-unionist, if employed, to work without interference. The phrase is used, however, to mean something more. The open shop is called the American Plan and in the fight against the union patriotism is invoked. The refusal of the unionist to work with the non-unionist is condemned as an unpatriotic denial of an American right. The charge is that the non-unionist is denied the right to be employed. He has no such right. No one has the right to be employed. The non-unionist does have the right, if employed, to work without interference. To advocate and promote, as matter of principle, the enforcement of that right, the right of whomsoever, if employed, to work without interference, is indeed an endeavor of patriotism. But, on the other hand, to advocate and promote, as matter of policy, one course or another with reference to the employment of unionists is

an endeavor not of patriotism but of expediency. It seems expedient to the non-unionist not to join the union. There is no question of patriotism involved. It seems expedient to the unionist not to work with the non-unionist. Equally there is no question of patriotism. It seems expedient to one to employ unionists, to another to employ non-unionists. Here, too, is no question of patriotism. The distinction is worth making because the solution of the problem of capital and labor is a matter of understanding and it does not make for understanding or for good will that one side tries to envelope its cause with the flag.

These then are the items of self-examination I propose for us as conservators of property, concerned to prevent the making of laws for the undoing of property, concerned to prevent the breaking of laws for the protection of property and concerned to see capitalism unmenaced by strife between capital and labor.

The Price of Privilege

TURNING from self-examination and looking to the outside we see in Congress blocs contending not for the common good but for the class good, contending for privi-

lege—privilege for property and privilege for labor—all unmindful that privilege begets, always begets, reprisal; unmindful that, as St. Loe Strachey has said, "those who insist on privilege and obtain it always perish in the end from privilege." The fact of this contention by blocs discloses the danger, the danger of class consciousness. In the presence of that danger we cannot afford to be off our guard against Bourbonism in ourselves. We cannot afford, engrossed as we are in the complexities of a farther-reaching, increasingly intricate business world that faces problems of bankruptcy in things of the spirit more than in things of the market—we cannot afford, so engrossed, to close our minds against much discontent that proceeds today not from greed or otherwise unworthily but from heartache and aspiration. We cannot afford to neglect straight thinking or restraint in personal expenditure or circumspection in conduct or generous-mindedness that gets the other man's viewpoint. We cannot afford to neglect these because they help toward the understanding that makes sound public opinion, the dominance of which will give us government efficient in the protection of the property whose conservation is the primary function of our trust companies.

Woodrow Wilson and the Federal Reserve System

IN an editorial estimate of Woodrow Wilson's part in establishing the Federal Reserve System the New York Times says:

"As Mr. Wilson's career comes to be more accurately appraised, one aspect of it is certain to get increasing emphasis. He had the unusual double distinction of having conducted a successful war and of having put through a vitally important reform of the national currency. The usual lot of a Government engaged in a great war has been to find itself financially unprepared, and therefore to be driven to the recourse of depreciated money. This happened in our own war of 1861. It unmistakably happened with the British Government of 1914, whose effective expedients in August of that year to prevent breakdown of the public credit were in the nature of sudden 'emergency measures,' forced by the inelasticity of the existing financial machinery.

"It has been the habit of our people to speak of the enactment of the Federal Reserve law in December, 1913, as a piece of good luck for the country. 'Luck' it certainly was, when considered in the light of the possibility that without it the United States might have been swept along with Europe into depreciated paper money.

"The Federal Reserve law was on the statute books in August, 1914, because Mr. Wilson had in August, 1913, put the Reserve bill on the calendar, urged it with all his force and influence, refused to consent to postponement of it, and prolonged the extra session of Congress three months in order to get it passed; all this on the ground that a sound banking and currency system must be created immediately and without delay, with a view to any and every emer-

gency. Nowadays, when the Federal Reserve law is taken for granted as the nucleus of our financial system, when it is difficult to imagine the country conducting its business under another, it is not so easy as it was ten years ago to realize the immense obstacles which had to be overcome in the President's campaign for the necessary legislation.

"It is entirely true that the general theory and framework of the law had been outlined by Senator Aldrich and the Monetary Commission long before President Wilson took office. No one admitted more frankly than Mr. Wilson the extent to which the framers of the law were indebted to the work of that commission. But during the five years which followed the panic of 1907, with banking and currency reform a matter of constant discussion, Congress and President had been afraid to touch it. This was partly because of self-distrust, but largely also because Mr. Aldrich's measure, contemplating as it did a Reserve system centralized and dominated by the existing banking interest, was regarded as a political impossibility.

"Mr. Wilson had to confront first the insistence of a great part of the banking community itself, that the measure be based on that political impossibility. Next, he had to suppress obstinate efforts among his own party's Congressmen, either to postpone action on the bill or to load it down with dangerous provisions. Senator Hitchcock led the one movement with his insistent declaration that the Senate 'can give at this session neither sufficient time nor study to this question to reach an intelligent decision.' If that protest had had its way, Congress would have been debating the Federal Reserve act when the war broke

out. Another wing of the President's party insisted on the inclusion of warehouse receipts for cotton and grain as a basis for Reserve note circulation, a purely inflationist proposal. Still another proposed to limit aggregate note issues arbitrarily to a maximum of \$500,000,000. As late as the autumn of 1913 it was intimated in the Senate that 'several hundred amendments' would have to be discussed.

"Every one who followed the course of the legislation knows that the bill was very imperfect in its early stages. It is also well known that the judgment and energy of committeemen like Carter Glass were of the highest service in blocking unsound proposals while staving off purely dilatory amendments. But in Congress it was an uphill struggle; the chairman of the Senate Finance Committee himself favored certain dangerous changes in the program, and both sectional and professional opposition stood in the way of the Administration bill. It was without the slightest question the powerful and unyielding pressure from the White House, in behalf of the sound and prompt recasting of the original measure, which made possible the enactment of the present law in the last week of December, 1913.

"On Mr. Wilson's great achievements in the conduct of the war, public opinion has already given its verdict. Over his policies in arranging the peace, historical controversy will long rage. But of his service in compelling a divided and uncertain Congress to enact at once the financial measure which played so great a part in our surmounting the shock of world-wide insolvency during 1914, and in thus insuring the notable American prosperity during and after the war, there can be no dispute."

Uncle Sam Adopts a Viceroy

By RIXEY HOBSON

Huguenot Half Dollar, Newest American Coin, Bears Profile of William the Silent, Stadtholder of the Netherlands, and Admiral Coligny of France. Secretary Mellon Frowns on Commemorative Mintage. New Issue to Aid Walloon Tercentenary.

STRANGE as it may seem, the likeness of a famous stadtholder of the Netherlands and an Admiral of France appear as the principal figures on the newest American coin—the Huguenot half dollar.

To commemorate the 300th anniversary of the settling of New Netherland by the dauntless Walloon families and to honor the luckless band that followed the intrepid old campaigner Ribaut in his vain attempt to plant a colony on the southern shores, the United States mint has just struck off the first of the new fifty-cent pieces. In keeping with the hands-over-the-seas spirit—to which America must attribute its beginning as a nation—the Treasury has departed from its time-honored custom of selecting eminent Americans to grace the face of its money. The profiles of two ardent protagonists of the colonial movement—William the Silent, Stadtholder of the Netherlands and Admiral Coligny of France—are impressed upon the obverse side of the Huguenot half dollar.

It was Coligny who turned his eyes westward for a foothold in the "New Indies" so early as 1562. Hopeful that he might find a refuge for his fellow "heretics" whose martyrdom he foresaw, Admiral Coligny backed the expedition of 150 men who set out from Dieppe, under Ribaut, in two small vessels that crossed the Atlantic in safety and landed the adventurous colonists at the mouth of "Ye Riuer Mai"—as they named St. John's River in Florida. While the Frenchmen came to an untimely end—the colony at Fort Caroline was mas-

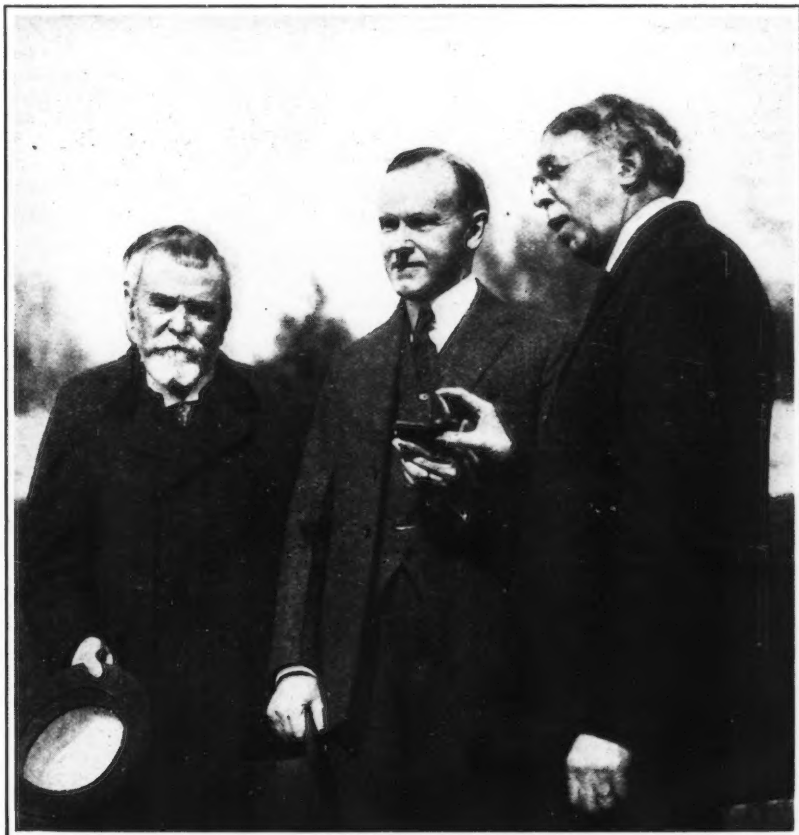
sacred to a man by the Spaniards in 1565 after a storm at sea had wrecked Ribaut's fleet just off the coast of Florida, a stone column, carved with the arms of France, was erected as an earnest of Coligny's faith in the New World. William the Silent was a close friend of Coligny's and was deeply interested in colonial undertakings. On the reverse side of the Huguenot coin

arrived in New York harbor, a small French sloop was already there. Her commander was about to take possession of the land in the name of the King of France, but her crew mistook the "Nieu Nederland," which was accompanied by two smaller vessels, for the vanguard of the Dutch fleet and, fearful of a clash with this then mighty marine, set sail and withdrew.

The appearance of the Huguenot half dollar doubtless will cause the average American to brush up on his history and look into the background of the tercentenary. While lacking the romantic interest attaching to the settlement of Jamestown or the landing of the Pilgrims, the year 1624 saw the first permanent settlement in the middle States. President Coolidge gave the tercentenary the executive stamp of approval, saying: "Every such effort at reviving and maintaining the interest of our people in the story of our national beginnings is calculated to the promotion of truest patriotism."

History is vague as to the distribution of these thirty families, mostly "Walloons"—those people who inhabited the French departments of Nord, Aisne, Ardenne and Calais, and the Belgian provinces of Hainaut, Namur, Liège, Brabant and Luxem-

burg. They claim to be the "Belgæ" of whom Caesar wrote. Because they were different from their French neighbors on the south, they were called "walloons" or strangers—and it is a moot question whether the arrival of these hardy emigrés also marked the founding of New Amsterdam—out of which grew the great metropolis of New York. It is thought fairly certain that most



President Coolidge Receives the First Huguenot Half Dollar from Rev. Charles S. McFarland as Ambassador Jusserand Stands by Approvingly

there is shown an imaginary likeness of the Dutch ship "Nieu Nederland," which under the flag of the Dutch West India Company bore the thirty families, "mostly Walloons," to the banks of the "Mauritius" river and thus laid the foundation for the state of New York. It may be recalled that the "Nieu Nederland" probably changed the history of America. When the Dutch vessel

of the colonists sailed up the Hudson River to Fort Orange near Albany, while several found their way to Delaware and Connecticut. Perhaps a few remained on Manhattan Island, where a rough trading depot already had been set up by the forerunners of the Walloons. The interest of the protestant churches in the tercentenary grows out of the fact that the beginning of the Reformed Church in America dates from the time that Sebastian Krol, the lay chaplain provided by the Classis of Amsterdam, conducted daily services at Fort Orange. The revolutionary sentiment that "freedom of conscience shall be left to everyone" was contained in the "provisional conditions" that the Dutch West India Company gave them as a parting blessing. Thus was the foundation of religious freedom in America established long before it was recognized in New England or in Europe.

Commemorative Issues

THE issuance of a commemorative coin is a rather rare thing in this country, where Congress has gravely declared that the design of any standard coin cannot be changed oftener than every twenty-five years without a special act. It was by such an act at the last session that the Huguenot half dollar was authorized. Since the first mint was erected, there have been only eighteen commemorative coins struck off by the Government, for, indeed, the issuance of these coins is of comparatively recent origin. The Columbian half dollars—struck off to aid the World's Columbia Exposition held in Chicago in 1893—were the first of the series in America, although the leading nations of Europe had issued gold and silver coins to celebrate the coronation of new monarchs, the weddings of their kings and queens, the golden and silver jubilee of their rulers and commemorate the triumphs of arms in great battles.

While William the Silent, who was called The Great Liberator, has the distinction of being the first European monarch to appear in relief on an American coin, Isabella, the gracious Queen of Spain, was the first to win this unusual honor. The ruler who pawned her jewels to finance the fateful voyage of Columbus was the central figure of the Isabella quarter, which was struck off by the mints for the Board of Lady Managers of the Columbian exposition to raise revenues to meet the various expenses incurred by it during the fair.

Like all other commemorative coins, the Huguenot half dollar is to be sold at premium. Congress authorized an issue of 300,000, which are to be sold for general circulation at \$1 each. The premiums realized through the sale of the Huguenot half dollars will go toward defraying the expenses of the tercentenary celebration, to be held in the spring, which may bring the King and Queen of Belgium to American shores. For, unlike the European nations which treat the commemorative coins the same as any regular issue, the Government resorts to the expedient of turning over the special coins to the beneficiaries to escape direct appropriation of Federal funds for these celebrations. All of the issues have been offered for sale at prices generally two or three times the face value of the coin.

The design of the Huguenot half dol-

lar was made by one of the artists employed by the Government at the Philadelphia mint. As is required by Secretary of the Treasury Mellon, the design was submitted to the Commission of Fine Arts for its approval. The Director of the Mint is reported to be quite confident that it will not offend the artistic sensibilities of the critics, who asserted that "our American coins for more than a century have been a series of metal nightmares," scoring virtually all of the coins, from "the copper one-cent piece with its anemic Indian head to the silver half dollar with its pseudo-Greek profile and its frightened eagle arising from a garland of garlic." The coin is regarded by reputable artists as being quite artistic and a good example of practical numismatics.

Secretary Mellon Frowns Upon Special Issues

DURING the present administration, Secretary Mellon has been compared with Alexander Hamilton upon more than one occasion. And again there is a parallel. Alexander Hamilton called for a reform in coinage to end the "immense disorder." Secretary Mellon frowns upon the issues of special coins, hailing as "wise legislation" the law which stipulates that there shall be no change made in the designs of coin oftener than once in twenty-five years. It is the Secretary's view that frequent changes are incompatible with readiness of identification and make it harder to protect the integrity of the coins by inviting counterfeiting.

While it would seem that the special coins would have a larger circulation, with the great body of coin collectors all over the world anxious to add to their prized possessions, Secretary Mellon recently pointed out that the commemorative coins, sold at a figure well above their face value, had not proved to be popular. To back up this assertion, the Secretary got down to cases.

Taking the six latest issues, he recited that while 300,000 of the Monroe Doctrine half dollars were authorized and 274,000 were coined, there remained on hand at the close of the exposition 217,000.

The silver half dollars which were struck off in 1922, to aid in the financing of the Grant centenary did not find a wide market. Congress authorized the minting of \$125,000, but only \$50,000 were coined. Grant half dollars having a value of \$14.200 were returned to the Treasury for destruction. Even the Pilgrim Tercentary failed to bring the maximum response. Of the 250,000 coins, the exposition returned 80,000 to be melted.

In commemoration of the 100th anniversary of states admission to the union, the mint was directed to coin half dollars for Maine, Alabama and Missouri. Only half of the 100,000 authorized for Maine were issued; Missouri returned 29,600 of the 50,000 half dollars to be destroyed, while Alabama sent back 4000 of the 70,000 coined to be melted up.

Inasmuch as the special coins are sold at a premium, it is considered unfair for the Treasury to offer them later at their face value, because this action would impair the sale price of the coins among the numismatists and would destroy the incentive of

collectors to purchase them at the higher figure.

The special issues have been as follows:

	Date of Issue	Issue Price	Present Price
Columbian Half Dollars...	1892	\$1.00	\$.50
Columbian Half Dollar...	1893	1.00	.50
Isabella Quarter Dollars...	1893	1.00	1.00
LaFayette Silver Dollars...	1900	2.00	3.50
McKinley Gold Dollars...	1903	3.00	4.50
Jefferson Gold Dollar...	1903	3.00	4.00
Lewis & Clark Gold Dollar...	1904-5	3.00	6.00
Panama Pacific Issues...	1915		
\$50 Gold pieces.....			175.00
\$2.50 Gold Piece.....			7.50
Workman Gold Dollar..			4.50
50 Cent Piece.....			3.50
McKinley Memorial Gold Dollars	1916-17		3.00
Illinois Half Dollars.....	1918	1.00	1.25
Maine Half Dollars.....	1920	1.00	1.25
Pilgrim Half Dollars.....	1920-21	1.00	1.25
Alabama Half Dollars.....	1921	1.00	1.25
Missouri Half Dollars.....	1921	1.00	1.25
Grant Issues.....	1922		
Gold Dollars.....			5.00
Half Dollars.....			1.25
Monroe Doctrine Half Dollar	1923	1.00	1.25

It is possible that there will be another special coin authorized before the end of the present session of Congress, as Senator Smoot of Utah has introduced a bill seeking to aid in the Stone Mountain Memorial at Atlanta, where Gutzon Borglum, the sculptor, is cutting in this great mountain the figures of Lee and other Confederate leaders. There are rumblings of an issue in connection with the sesquicentennial celebration of the signing of the Declaration of Independence, which will occur on July 4 in 1926.

It is an interesting sidelight on special issues that prominent numismatists insist that no coin is entitled to the term scarce if there are more than 5000 in existence. To win the classification of "rare," not more than 2000 should be abroad.

To the coin collectors it is the "survival of the fittest" that adds zest to the game.

The Journal Name

WITH this issue the name of the Journal has been modified. Instead of the Journal of the American Bankers Association this magazine will henceforth be called the AMERICAN BANKERS ASSOCIATION JOURNAL.

The change is made in the interest of convenience and efficiency, the old name being too long for convenient writing or fluent enunciation, especially by those without the association. The new name preserves all of the essentials of the old and is in fact rather a modification of an old name than the adoption of a new name.

Mitsui Form a Trust Company

The Mitsui interests of Japan have formed the Mitsui Shintaku Kabushiki Kaisha, or Mitsui Trust Company, Ltd.

The capital is reported at ¥30,000,000 in 30,000 shares of ¥100 each. The functions of the new company will be the ordinary, fiduciary acts provided by the trust law of Japan.

John W. Wheeler has been elected president of the Texarkana National Bank.

Is the Government an Unfair Competitor for Money?

By HENRY TEMPLETON

Gale of Protest from Northwest Against Action of Treasury in Offering 4½ Per Cent Interest on Savings Certificates. Treasury Has Sent More Money Into Area of Financial Stringency Than It Has Taken Out in Thrift Certificates.

A GALE of protest has blown out of the northwest—just now America's financial storm center—over the action of the Government in offering Treasury Savings Certificates, with the alluring 4½ per cent partially tax-free yield to the small investor.

Banks in the west and northwest declare the Treasury is further aggravating their troubles by causing the withdrawal of savings accounts for investment in these baby bonds. Congress has been flooded with letters from the banks in the districts which are struggling for financial rehabilitation, reciting the ill-effects that have been visited upon them by the competition and calling for action. The Federal Reserve Board and the office of the Comptroller of Currency have received hundreds of appeals from the bankers, telling just how seriously they have felt the Government's program for the sale of the savings certificates.

The charge of "unfair competition" for money has been lodged against the Treasury. Pointing out that the Treasury is offering 4½ per cent interest, compounded semi-annually, if held five years until maturity, the banks contend that they cannot afford to offer such a high rate. The Federal baby bonds are backed by the Government—there is no possible chance of loss. Furthermore, the return is free from state or normal Federal income taxation. The upshot of it all, they say, is that money which should go into the savings departments of the banks and thus into commercial channels is being poured into the Treasury Savings Certificates.

The drive of the banks to have this competition removed, temporarily at least, resulted in orders being issued late in January for the suspension of sales in eighteen of the western and northwestern states. Senator Hendrik Shipsted, the new Senator from Minnesota, addressed his confrères on the first of February for more than an hour on the question. There have been rumblings from the bankers in other sections of the country over the rates of interest offered on the savings certificates. Just how far the movement will go is a matter of conjecture. It is through the postoffices that the Government has promoted the sales of its savings certificates, the peace-time successor to the thrift stamps. Postmaster General Harry New, early this year, sent out an order to the postmasters in the area of financial stringency, instructing them to discontinue advertising the certificates and soliciting their sale.

The suspension of sales in the states of North Dakota, South Dakota, Minnesota, Wisconsin, Iowa, Missouri, Kansas, Wyoming, Nebraska, Texas, Arkansas, Colorado, Utah, New Mexico, Idaho, Arizona, Montana and Oklahoma was directed later.

"Can't Compete," Say the Banks

JUST how large the proportions of the flight of capital to the certificates had become in some states was indicated when Senator Norbeck of South Dakota declared that sales had jumped steadily upward until the rate of \$600,000 a day had been reached. What may be regarded as an epitome of the feeling of the small banks was given to the Senate when Senator Shipsted read the following letter received from a St. Cloud bank, whose stockholders memorialized Congress to halt the sale of the certificates:

The Two Sides

MORE than \$23,000,000 flowed into the Treasury Savings Certificates during the last month of 1923, although the net cash sales for the whole year were only \$175,000,000. The Federal "baby bonds" had their greatest appeal in the Middle West and Western States. The flight of the dollar into these securities, with their 4½ per cent partially tax-free return, caused such widespread protests from the banks which claimed that savings deposits were being withdrawn on a large scale for investment in these certificates that Secretary Mellon directed the temporary suspension of sales in eighteen States.

Lew Wallace, Jr., Director of the Government Savings System, declares there is no basis for the charge that the United States is guilty of "unfair competition" for money.

"The Treasury Department, by issuing Government securities at their present rate of interest, is being unfair in its competition for money in this territory. Present conditions prohibit banks from paying more than 4 per cent to depositors. It is the intention and purpose of this bank to serve this community. This cannot be done properly if this bank must compete with the interest return of more than 4 per cent with additional tax-exempt features, such as is offered by the United States Government. It is essential to the growth of any community and country at any time but particularly during these times that the people who are obliged to borrow money be given as low an interest rate as is possible and consistent with sound banking practice. The Government of the United States should consider the injustice it is working upon the banks and people of this country and discontinue the issuance of Government securities at the present high interest return."

The Senator scored the policy of the Treasury in featuring the tax-exempt appeal of the certificates, while Secretary Mellon was appealing to Congress to pass a law putting an end to the tax-free securities. "The nontaxable feature of the new Treasury Savings Certificates is advertised as a special inducement to investors, while at the same time the issuance of tax-free securities by states and municipalities is condemned," Senator Shipsted stated: "It looks inconsistent to me that two intensive campaigns are being put on at the same time—one against the states and municipalities issuing tax-exempt securities issued by the Government of the United States, and, as a special inducement to the investor to purchase the tax-exempt securities of the Federal Government, to pay him a higher rate of interest than he can receive on bank time deposits, municipal bonds, or other gilt-edge securities."

From the viewpoint of the Treasury, there is another side. It is desirable that the Government's securities should be widely held to give stability and confidence. The savings certificates represent a more or less permanent investment because they must be held to maturity to realize the 4½ per cent interest rate. If a pinch should come, they would not be thrown upon the market and thus become a disturbing factor. They encourage thrift among the class of people—the investors of small means—whom the Government desires greatly to reach.

Even among the bankers there is a large body of opinion that the Treasury's campaign of thrift should be encouraged. These bankers argue that the buyers of these "baby bonds" are the future buyers of larger units of high grade bonds and anything which tends to enlarge this circle of investors should be upheld. The view of the New York bankers, especially, is that the volume of investment in these savings certificates is too small to be considered an encroachment on the province of the private institutions.

Defense of the System

STOUT in his defense of the savings certificates is Lew Wallace, Jr., the director of the Government savings system.

For two years Mr. Wallace has been striving to popularize thrift through the medium of Government savings certificates. The Treasury has been working hand-in-hand with the postoffice. Posters have been displayed—to catch the eye and win the interest of the modest investor. The Government has even gone into the magazines to advertise the successor to the widely known thrift stamp.

"A careful analysis of the savings bank deposits in the west and northwest, together with the corresponding sales figures of the Treasury Savings Certificates, will bring out two facts," Mr. Wallace said. "Savings bank deposits during the last year have increased in greater proportion than have the sales of the Treasury Savings Certificates. The increased sale of these certificates has not decreased savings deposits, because more money has been returned to purchasers of these securities than has been taken from them by new sales.

"In January, 1922, the Treasury had to meet a maturity of approximately \$625,000,000 in the 1918 series of War Savings Stamps. Over the past year practically this entire amount has been paid back to the holders of this series of certificates. Many of the maturing certificates were exchanges for Treasury Savings Certificates which accounts for the large figure of Treasury Savings Certificate sales in the month of January last year.

"Again in January, 1923, the Treasury had the 1919 series of War Savings Certificates to redeem in the amount of approximately \$65,000,000. It is estimated that more than 50 per cent of this maturity was exchanged for Treasury Savings Certificates in the month of January, 1923, which accounts for the large figure for that month. These exchanges took no new money from the locality in which the holders resided.

"Taking the situation as a whole from the Treasury's standpoint there was outstanding in the hands of the public at the end of 1918 nearly a billion dollars worth of savings securities. On the basis of the Treasury Daily Statement on Dec. 31, 1922, this amount was reduced to \$729,000,000 and on Dec. 31, 1923, there was a further reduction to \$376,000,000. In other words, in one year's time the Treasury returned to the holders of these savings securities \$353,000,000 above all receipts from the sale of savings securities over the same period of time.

"According to the annual report of the Savings Bank Division of the American Bankers Association the total amount of sav-

ings deposits in the United States on June 30, 1922, was \$17,331,479,000, and on June 30, 1923, was \$18,373,062,000. This shows an increase of \$1,041,583,000, or six per cent for the year.

"The total amount of Treasury (War) Savings Certificates outstanding on June 30, 1922, was \$678,318,885, and on June 30, 1923, was \$336,551,131. This shows a decrease of \$341,767,754, or 50.2 per cent for the year.

"The conclusion may therefore be drawn that the sale of Treasury Savings Certificates and the Government's savings program did not cause a decline in savings deposits in spite of a larger sale and wider distribution throughout the country during the same year.

Analysis by Districts

"ANALYZING the conditions by districts from which the complaints have been received, figures and reports may be given to show that many of the claims made by the bankers are not based on facts. In the Seventh Federal Reserve District the state of Iowa has made claims that the sale of Treasury Savings Certificates has been the direct cause of several bank closures. Savings bank deposits in this state as given by the American Bankers Association amounted to: \$397,000,000 in 1921; \$419,000,000 in 1922; \$456,000,000 in 1923.

"This is an increase in the last year of \$37,000,000. For the month of December, 1923, alone there was an increase of six and a half million. The sale of Treasury Savings Certificates in this state during the year 1923 amounted to four and a half million dollars. That is, the total sales of Treasury Savings Certificates in the state of Iowa during the whole year of 1923 were two million less than the increase in savings bank deposits in that state for the one month of December, 1923. Furthermore, the total sales of Treasury Savings Certificates include many exchanges of the 1918 series of War Savings Stamps in January, 1923, and a similar exchange after December 15, 1923, for the 1919 series of War Savings Certificates. In other words, the figure of four and a half million dollars does not mean this amount of new money has been put into Treasury Savings Certificates. A most conservative estimate of the exchanges in Iowa places the figure at approximately a million and a half for exchanges in the two series of 1918 and 1919.

"There have been failures in Iowa, but the allegation that the sale of Treasury Savings Certificates has caused these failures is unwarranted. During the first four weeks in January there may have been unusual withdrawals from banks, but this is a natural sequence to failures in any community. There is nothing in our figures to indicate, as claimed, that large withdrawals are being made for the purchase of Treasury Savings Certificates.

"In the Ninth Federal Reserve District also, the sale of Treasury Savings Certificates has been cited as the cause of many bank failures. In spite of the bank failures savings deposits increased from \$83,793,033 on Jan. 1, 1923, to \$92,410,000 on Jan. 1, 1924. That is, in one year savings bank deposits increased more than eight and a half million dollars. The total sales of Treasury Savings Certificates for the same year

amounted to approximately \$10,000,000, and the Federal Reserve Bank at Minneapolis, acting as fiscal agent for the Government, redeemed to the holders of the 1918 War Savings Certificates approximately twenty-one and a half million.

"There has been a fifteen million dollar increase in savings bank deposits for the past three years in this district. The figures are: Jan. 1, 1922, \$77,238,556; Jan. 1, 1923, \$83,793,033; Jan. 1, 1924, \$92,410,000.

Points to Other Causes

"A REVIEW of the banking situation as a whole in the Ninth Federal Reserve District shows that more than 450 banks have failed since August, 1920. By states this number, which does not include banks which have closed and since been reopened, is divided as follows: Montana, 130; North Dakota, 155, and more than sixty in Minnesota and South Dakota. Fifty banks were being managed by the state bank examiner in North Dakota in February.

"It is necessary to bear in mind the number of banks per capita in the Northwest to appreciate the significance of the above figures. In 1921 there was one bank to every 768 persons in North Dakota, which means one bank to every 250 farmers. In July, 1923, South Dakota, with a population of 636,547, had 688 banks; Minnesota, with 2,387,125, had 1470 banks, and Montana, with a population of 548,889, had 350 banks. Based on the ratio of the population per bank for the United States as a whole, North Dakota had five banks where one would have been sufficient; South Dakota, four; Montana, three, and Minnesota twice as many as the national average.

"This over-banked condition had encouraged unwise extensions of credit, and a collapse has been impending for the past three years.

"It is the expressed opinion of bankers who have been in close touch with the rural banking situation throughout the Ninth Federal Reserve District that a large proportion of the bank closings are the result of poor management and inadequate state supervision. There are many instances where credit was extended, and it should not have been. Another peculiar condition which exists throughout the territory is that a man has to have a license to be a barber, or a dentist, or a veterinarian, but almost anyone can establish a bank and be the custodian of the funds of the community and the surrounding area.

"A great amount of money has poured into the Northwest since the war. The Federal Land Bank of St. Paul had loans outstanding on Dec. 31, 1923, of \$104,000,000, distributed in North Dakota, Minnesota, Wisconsin and Michigan. This is an increase of over \$24,000,000 in 1923. The Minnesota Rural Credits Bureau has granted loans since May, 1923, to the amount of \$6,000,000. The newly established Federal Intermediate Credit Bank at St. Paul has extended over two and a half million in loans. The Bank of North Dakota has lent \$11,000,000 on North Dakota land, and the War Finance Corporation has still outstanding to the banks of the Northwest approximately \$35,000,000. The Treasury itself has paid out in the past year alone \$21,500,000 to

(Continued on page 607)

Why "Customer Ownership" Benefits the Banker

By B. C. COBB

Vice-President Hodenpyl, Hardy & Co., New York

With Profits Restricted by Law, Public Utility Companies Can Not Finance Expansion Needs from Earnings. By Taking the Customer into Partnership the Companies Are Enabled to Finance Extensions in Anticipation of the Community Needs.

THE change that is taking place today in the investment field as a result of public service companies giving to their customers and employees opportunity to become financially identified with the business through the purchase of preferred stock is known as the "customer-ownership" movement. While this movement is far reaching in its influence, comparatively few people not connected with utilities realize its significance and the bearing it is beginning to have upon the business and social growth of communities—a matter in which every banker has a most vital interest.

It was started several years ago and met with such enthusiastic support that practically every power and light company of any importance is now engaged in making stockholders out of its customers and employees. Preferred stock is considered to be the most desirable medium for this purpose because of its safety of principal and its attractive rate of return. Bonds would be safer but the return ordinarily is lower. Common stocks seldom qualify because of their being subject to wider market fluctuations and the resulting tendency of making dissatisfied speculators instead of satisfied investors.

The purpose of the local utility company is sometimes questioned by those who are not fully familiar with customer-ownership. "No company is in business for its health," they say, "and if it did not benefit by the transaction, it would keep the stock." The same comment may be made, of course, in connection with every line of business where goods and service are bought and sold. It implies that every time a sale is made the buyer derives no benefit—that every time a person deposits money in the bank he loses, because if the deposit did not benefit the bank, it would not accept the deposit. As no one is forced to buy goods or deposit money against his wish, the point raised that the utility company alone profits by the sale of its preferred stock is ridiculous. It is quite true that the public service company benefits but it is also quite true that the customer and employee benefit. The company uses the money to help pay the cost of additions and extensions to its property and thereby increases its facilities for serving the public. The customer and employee benefit by the opportunity to obtain a sound investment paying an attractive return.

The plan especially provides for those of moderate incomes who, by making payments

monthly, can acquire an interest in the property. According to estimates made, customer-ownership in a few years has added to public utility companies over 1,500,000 stockholders who have invested more than \$500,000,000 up to Jan. 1, 1924.

Why So Much Financing?

THE utility business differs from almost every other line of commercial endeavor because of the greater amount of property and equipment required to supply a definite measure of service. If the business of an electric light and power company were fairly stationary on account of the demand for service having reached the saturation point, the question of financing the cost of replacements would not give the utility operator much concern. A situation of this sort does not exist in a growing territory, however, and experience proves that a power company, for example, requires from \$3 to \$5 of additional capital to handle every \$1 of new business.

In other words, for every new dollar's worth of electric current that is sold, the company must spend from \$3 to \$5 for expanding its facilities by purchasing turbines, transformers, poles and wires for transmission and distribution lines, meters, material for building power houses and substations, and the labor and other costs which accompany the work of construction, installation, etc. Almost any other industry requires a far less amount of capital employed in property and equipment to handle new business and its capital can be turned over from one to twenty-five times in a single year. An electric light and power company, however, is required to have such a large sum invested in property and equipment, that it can turn over its capital only once in periods ranging from five to six years. This big difference is due to the fact that the ordinary business, for example, deals in the buying and selling of merchandise or commodities whereas a utility company is engaged in supplying a special character of service to the general public. It must be ready at all times to instantly supply the power and light demands of many thousands of people.

Cannot Finance from Earnings

A PROSPEROUS industrial concern can reinvest profits for expansion purposes as there is no limit set by law upon the

amount that may be earned. Thus it can pay adequate returns to the holders of its securities and at the same time put surplus earnings back into the business. Here again the public utility business differs. Being under Commission Regulation, a utility company is prevented by law from earning in excess of a so-called reasonable return (usually ranging from 8 per cent. to 10 per cent.) It is obvious that a company cannot pay out this return to its security holders who provide the capital and at the same time accumulate a surplus sufficient to largely provide for the cost of the constant additions and extensions to the property.

A company in a growing territory therefore is obliged to obtain additional capital from time to time, as the public's demand for service increases. Furthermore, as it is important to the business and social life of a community that the supply of power and light be continuous and adequate, the management must plan its construction expenditures so that the company can keep ahead of the demands that are made upon it.

Formerly it was the practice of most all utility companies to sell blocks of bonds and preferred stock to raise capital. These securities usually were sold to banking houses who in turn resold them to their clients for investment. The outbreak of the late war and consequent high taxes upon incomes interfered with this method and drove large investors into tax exempt securities as the net return therefrom generally was more than what other securities would yield. As the income received from public utility securities was taxable, and more tax exempt securities were being issued every year, it became increasingly difficult for a company to obtain capital in the old way on reasonable terms. (The total amount of tax exempt securities outstanding in 1913 was \$4,850,460,713 and by Jan. 1, 1924, it was \$12,309,000,000, according to estimates made by the Secretary of the Treasury).

New money had to be obtained, however, if the growth of communities was not to suffer and in order to compete with the flood of tax exempt securities coming into the market, the utility company not only had to pay high interest rates but was forced to do most of its financing through bonds. As mortgages securing issues of this character usually provide that a property cannot be bonded in excess of from 75 per cent. to 85 per cent. of the cost of new construction, this left a gap of from 15 per cent. to 25 per

cent. (assuming the bonds were sold at par) which had to be financed in some other manner.

To meet this condition and as construction work usually goes on throughout the year—all of the money not being required at once—the management of some of the more prominent power and light companies decided that a substantial portion of the amount previously provided for by the sale of securities to investment bankers could be raised locally by offering preferred stock to customers and employees on convenient monthly terms with payments extending over a period of from ten to twelve months.

In some instances experienced stock salesmen were engaged but generally speaking more satisfactory results were obtained by first getting the employees themselves to invest in the stock and then having them interest the customers of the company. The success of this plan was almost instantaneous and many companies and their customers have thereby benefited.

Many Beneficial Effects

THE effects of these customer-ownership campaigns have been even more beneficial than the management contemplated when the movement was first started. Primarily, of course, many companies were enabled to raise money to defray a substantial portion of the cost of additions and extensions to property and in addition a larger stock equity was provided, thus enabling bonds to be sold on a more advantageous basis.

The intangible benefits also have been important. Both employees and customers have taken a greater interest in the progress of the company and more freely made suggestions and constructive criticisms. In each case every effort has been made by the company to acquaint its employees and customers with the workings of the organization. Dividend checks are accompanied by earnings statements. Booklets, letters and annual reports are distributed so that the stockholders can keep in touch with developments and no effort is spared in giving information to the general public. Publicity of this character promptly disarms any latent suspicion that may have lurked in some minds. As someone has said: "Ignorance of a corporation's affairs is the great cause of suspicion. It is not the known that is terrible; it is always the unknown. Ghosts never appear in the daytime to frighten people. They always appear at night, because daylight discloses their non-existence. It is not our friends and close acquaintances of whom we are suspicious; it is strangers. That is the basis of much of the trouble in industry today."

In those instances where they are judiciously used, customer-ownership and publicity have been important instruments in building up good will, the most valuable asset of any public service company. This good will, however, does not give a "blank check" to a utility and permit it to overstep the bounds of fair dealing with the public with reference to either service or rates. These matters are still of concern to the customer owners because they far outweigh the advantages enjoyed from their investment—the average amount of preferred stock held usually being less than five shares. The friendly cooperative relationship estab-

lished between the company and the public through the sale of stock is based on the principle of mutual interest, and no level-headed public utility management can ever afford to do anything that would even threaten to disturb this condition.

The customer benefits from customer-ownership by obtaining a favorable opportunity to place some of his money in a sound investment yielding an attractive return. Furthermore, his investment is in a property which he knows is indispensable to the daily needs of the community in which he lives and there are no barriers which prevent him from knowing how the affairs of the company are being conducted, the character of the organization, and what degree of progress is being made. He also knows that his money is devoted to productive uses and that it helps to make his community and state a better place in which to live.

How the Banker Benefits

EVERY banker knows that whatever is done to develop the community in which he does business inevitably must benefit his bank. Every dollar that a utility company spends for new plants, equipment and distribution facilities creates business and furnishes employment. This results in a greater circulation of money which in turn enables the banker to turn over his capital more rapidly. It also gives the community the reputation of being a "live business town" and, as such, attracts new residents and new industries. True, the sale of preferred stock may result in the loss of a portion of some deposits but this condition is only temporary for as the money is redistributed for materials and wages, it finds its way back to the banks. Therefore, what really takes place is the shifting of deposits instead of the loss of them. In fact, it probably will be found upon investigation that savings deposits have increased in the communities where the customer-ownership plan has been most successful.

Every banker also knows that the public loses large sums every year in fraudulent investments. The natural reluctance of people to admit their losses in this way prevents reliable figures from being compiled as to the amount of savings that are thus dissipated. It has been estimated that \$1,000,000,000 annually is lost through fake oil, mining and other stocks. This figure may be rather high but even if it were cut in half the loss of \$500,000,000 annually, plus the interest it would yield if devoted to legitimate business uses would reach a tremendous sum over a period of years.

Financial writers sometimes blame the investment houses for this condition because they have not, as a rule, organized their facilities to serve the person of moderate income who can lay aside only a small part of it each month for investment. In answer to this, the investment firms state that the cost of doing business with the little fellow is too high on account of the expense involved in handling the account. The desire to own investment securities is inborn. This desire has not been always wisely gratified.

The sale of stock under customer-ownership plan by the utility companies is a protection to the inexperienced and small in-

vestor. It is filling the void left by the investment firms. By the sale of preferred stock in this way, the utility companies are doing effective, constructive work in protecting the public.

Bankers, by nature of their business, have analytical minds and business vision. For these reasons it has not taken them very long to grasp the significance of the customer-ownership movement and its direct relation to their business on account of community development. At the start, however, some bankers damned customer-ownership by faint praise but subsequently went into the economics of the movement and after satisfying themselves as to the sound financial condition, earnings position and management of the local utility, promptly gave it their cooperation. As one banker said a short time ago, "When this movement started, I naturally was fearful about the effect it would have upon our savings deposits but I realized we couldn't keep them intact under the conditions prevailing these days. As the money was going to be spent for making the town a better place in which to live and do business and as every dollar thus spent was one less for the 'fake' stock salesman, I not only recommended the purchase of the power company's preferred stock to those who asked me about it, but also bought some for myself and other members of the family. As for losing deposits, I have found that they increased."

Over in England a new Premier has been chosen and it is reported that the party he represents includes among its proposals "a single capital levy, nonrecurring, upon all private fortunes in excess of approximately \$25,000 beginning at 1 per cent, and graduated upward to a maximum of 50 per cent. upon such fortunes in excess of \$5,000,000." If the workers and customers of industry in the United Kingdom were partners in the business enterprises through stock ownership, would such legislation even be thought of?

Customer-ownership was started by utilities in the United States before Communism was so widely discussed, hence the management of such properties cannot take credit for creating a counter movement. Nevertheless, the fact remains that the seeds of social discontent are finding it increasingly difficult to take root on account of the policy adopted by the public service companies. The effect of such a far-sighted policy is of benefit to every person who works and saves and as he is benefited, so is the banker, for if the incentive to save money is withdrawn, capital will not be accumulated.

Institute Graduate Becomes President

Francis P. McGinty, former president of the Utica chapter, was elected president of the Utica National Bank, succeeding Charles W. Cushman, who resigned because of ill health.

Mr. McGinty, who is but thirty-five years of age, is one of the youngest bank presidents in the East. His phenomenal rise from bank messenger to president in twenty years was due to continuous study.

Mr. McGinty was the first secretary of the Utica Chapter, A. I. B., and served as president for two terms. Speaking of the Institute, he said: "I should be ungrateful, indeed, if I did not acknowledge the debt I owe the A. I. B. I want to say that I am sure the Institute study courses and the benefits derived from active participation in Chapter affairs have helped me more than I can tell."

The First Lady of the Mint

BY LEWIS ALEXANDER

Miss Mary M. O'Reilly's Part in Running America's Greatest Money-Making Business. After Post-War Lull, U. S. Mints Enter Upon Period of Great Activity. Fashions in Coins Change Four Times in Century. Philadelphia Mint Sets Record.

THERE have been times during the past decade that a gentle woman of the old school has been the active head of America's greatest money-making business. So lavishly has the touch of Midas been applied to the fortune of the country that more than one-third of all the gold in the world has found its way into her custody. Hundreds of millions of dollars in gold and silver coin, bearing the impress of the American eagle, have been struck off at her direction. It is, indeed, a post of importance that Miss Mary M. O'Reilly has filled as Assistant Director of the Mint. For while directors have come and gone, Miss O'Reilly has remained as the "right hand man" of the men whom Presidents have designated to run the mints.

In the written annals of the financial history of America, woman has had a more or less obscure place, but this cannot be said of the mint. The first coins that were struck off by the United States Mint were the Martha Washington dimes and half-dimes. There was no bullion in those days of 1792, and the coins were said to have been fashioned from silver plate furnished by the first lady of the land. Perhaps this is one of the reasons that there hangs on the wall of the office of the Director of the Mint in Washington an old colored print, showing Mrs. Washington inspecting the first rude coins that were minted. Singularly, while she is depicted as regarding it with rapt admiration, history recites that, due to a mistake in spelling by the early French die sinkers, both denominations were called "dismes." Since that time woman as exemplified in the figure of the Goddess of Liberty has been glorified on nearly all of the standard coins that have been placed in circulation. How much of this glorification may be attributed to the scruples of George Washington in declining to permit the representation of his head upon America's first coins is beside the point. Not until the

minting of the Lincoln penny was a President's head used on one of our coins.

Believes in "Doing the Job"

MISS O'REILLY is a mighty modest woman to have risen to such a post. She insists that she should not be made

in the middle and combed back, with the term "Boss of the Mints." Her kindly and gracious smile would belie it. And yet the press photographers in Washington, always on the alert for a view of the unusual person, admit that she led them one of the merriest chases they ever had before she was brought into the focus of their cameras.

Truth to tell, Miss O'Reilly is one of that fast disappearing class in officialdom that believes in doing the job instead of talking about it. And yet she will confess that there is no other position that would bring to her the same joy. "It changes every day—it's so kaleidoscopic," she said. "When you think just how gold has influenced the destinies of nations, you must get a thrill to know that every day the assay offices are putting more of this precious metal into circulation. Just visualize the picture of a prospector coming to the Deadwood assay office, turning in his gold, getting a check on the Treasury and adding to the wealth of the world! The picture is never the same—perhaps that is the reason this job gets more and more interesting to me. But, then, money is always an interesting subject."

It was eleven years ago that Miss O'Reilly came into the office of the Director of the Mint. At that time George E. Roberts, now vice-president of the National City Bank, was the Director, and Miss O'Reilly candidly confesses that it was his inspiration which started her on her way up from a clerk to Assistant Director. It is likely, however, that Miss O'Reilly's elation over having Congress, by specific act, create this office last July was somewhat dimmed by the fact that many times during the past eight years

she has been the acting director of the mint.

The living documents of American Government are the hearings before the Appropriation Committee. Before this group of seasoned inquirers, imbued to a marked extent by the "show-me-why-you-need-this-money" spirit, the heads of the departments



Miss Mary M. O'Reilly

subject to the spotlight and seeks to deprecate the flattering things which have been said about her as one of the highest-placed women in the affairs of government. One would hardly associate this tall, stately woman, with her ascetic countenance, soft, well-modulated voice and gray hair parted

and bureaus must appear for this ordeal and grilling. The ability of these men to ask embarrassing questions is notorious. If an official is not in possession of the full facts relating to his office, if he does not know all angles of its operations, this is quickly exposed by the running fire of questions that the appropriation committees ask in seeking some reasons for the justification of the expenditure of public funds.

An unvarnished testimonial to Miss O'Reilly's knowledge of what is going on in the three mints and the eight assay offices that the Government operates was recently afforded when Representative Martin T. Madden, the "watch dog of the Treasury," opened the hearings on the budget's recommendations for the service operations in 1925.

Before Congress

AS recounted in the hearings:

"The CHAIRMAN. We have with us today Mr. Robert J. Grant, Director of the Mint, and Miss Mary M. O'Reilly, assistant director. Mr. Grant, we shall be pleased to have a statement from you supporting the estimate for the office of the Director of the Mint.

"Mr. GRANT. Mr. Chairman, if the committee has no objection, I shall ask Miss O'Reilly to make that statement and also to testify as to the reasons for the rest of the estimates appearing under the individual mints and assay offices. The reason for this is I have been Director of the Mint only a very short time, whereas Miss O'Reilly has been in the service a long while and is thoroughly familiar with all of its requirements.

"The CHAIRMAN. That will be satisfactory to the committee. Miss O'Reilly, as I recall, appeared before the committee last year. What have you to say, Miss O'Reilly, in justification of the estimate of \$31,040, which covers salaries for the office of the Director of the Mint here in Washington?

"Miss O'REILLY. Mr. Chairman, the estimate of \$31,040 covers —"

In her calm, well-modulated voice, the responses came unflinching to the running fire of questions that were directed by the six Congressmen, expert in the affairs of all bureaus of the Treasury, about the replacement of \$200,000,000 in silver that the United States shipped to India under the Pittman Act, the mintage of gold coins to bring up the reserve stocks to one-third of the outstanding gold certificates, the cost of maintaining the small assay stations for the benefit of small prospectors, the possibilities of new gold discoveries in America, the most efficient method of treating ores, the actual profit of the Government from seigniorage—in short, about everything connected with the coining of money. Doubtless the wonder of the Congressmen—as with Goldsmith—grew that one small head could carry all she knew.

It is a Treasury legend that anything and everything about the mints might be learned from Miss O'Reilly. Raymond T. Baker—one of the former directors—used to remark to his intimate friends that he was "The Director," but that Miss O'Reilly was "The Brains." Other directors have leaned heavily upon this quiet, efficient woman who sprang from the soil of Massachusetts in running the mints. For the turnover of directors has been rather rapid.

The operations of the mints have always been more or less shrouded from public gaze, and now the people are likely to know less and less about them. While sightseers before the war were permitted to look on some of the activities of the mints, the Treasury last year decided to close them to all visitors—because it was believed that the educational benefits to be derived by the

sightseers were more than offset by the difficulties of safeguarding and protecting the Government from possible losses. And just now the mints—after a post-war lull in operations—are entering upon a period of great activity. Gold and silver production gained last year, the output of gold increasing to \$51,378,700 as silver advanced to 72,611,200 ounces. While no gold rush is on the horizon, the Director of the Mint has predicted "an appreciable increase" in both metals in 1924. The Philadelphia mint in December shattered all records by coining 60,000,000 pieces—all of the one-cent denomination. Just now it is striking off the \$20 gold pieces to bring up the reserve stocks to the level authorized by law and to convert a part of the world's greatest accumulation of gold, now stacked in bars like so many building bricks, into "double eagles." After being closed for the past four years, the refinery at Denver is to be opened because enough bullion has been accumulated there to keep it running for three years at least.

A Business Barometer

"THERE is perhaps no barometer of business which responds as quickly as coinage," Miss O'Reilly said. "You see we order coins as the banks demand them. While there is a seasonal demand for coins around the holidays, it is not such an easy matter to anticipate the need of trade. Just how this fluctuates may be indicated at Philadelphia. The coinage required there now is four times greater than it was last year. In January of last year, we thought we had enough subsidiary coinage—half dollars, quarters and dimes—to last for two or three years. Before the end of November, the stocks were entirely depleted, and we had to run on a 24-hour basis, including Sundays, to keep up with the demand for coins.

"The mints must keep alert to see that the Government does not lose by holding bullion. Just now the Philadelphia mint is endeavoring to clean up the accumulation of silver in this form. We have about 30,000,000 ounces which we are carrying in the Treasury as a dead asset. The Government is carrying that without any profit. Until we coin these ounces into dollars they are of no service whatever. When converted into silver dollars, certificates may be issued against them, and a corresponding number of Federal Reserve notes, now backed by Treasury certificates, retired.

"Gold uncoined is not a dead asset, because gold certificates may be issued against it. However, the banks prefer to carry gold coins to gold bullion as reserves, because it is more convenient and can be paid out over the counter."

"Is the mint really a money-making institution?" Miss O'Reilly was asked.

"Just now there is a rather handsome profit to be made in seigniorage in silver. An ounce of silver, which costs about 65 cents, makes \$1.29 worth of silver dollars, or \$1.38 in subsidiary coins. There is, of course, no profit in gold because this is the only commodity for which Congress fixes a price, and the gold coin contains its full value in this precious metal. The Philadelphia Mint's revenues last year were more than \$13,000,000 in excess of its expenses. We make a charge of \$1 a thousand for assaying

gold. With the great flood of gold to America from all parts of the world, the New York assay office has been required to determine its value. In 1921 our receipts of gold ran up to \$637,000,000. Research tests were made showing that a sufficient recovery of gold could be made from refining the metal carried off in furnace gases to pay for the cost of the installation and the expenses of operation of a system of recovery. The New York office suspended operations for six months to permit the installation of this electric precipitator to catch the fine particles of gold that had been escaping heavenward. So it is true that the mints make money for the Government—as well as for the people.

Make Coins for Other Countries

"IT might be interesting for you to know," she continued, "that we also work for a few other countries. We executed 3,900,000 pieces for foreign nations last year, Peru and Nicaragua obtaining the coins. As a matter of international comity during the past few years, we have produced coins for Indo-China, Siam, Salvador, Ecuador, Costa Rica, Columbia, Nicaragua, Peru and even China, where coins are said to have had their origin. No profit accrues from this operation, however, as the mint is merely reimbursed for its expenses.

"Another little-known activity is the manufacture of medals. The dearly prized medals conferred upon the Nation's bravest soldiers and most distinguished citizens have been struck off by the mints."

While the mints will hum with activity during the next year or so, there is scant likelihood of another mint being established. Miss O'Reilly was confident that the three units could turn out all of the coin needed for business operations. For while the national income was estimated at \$60,000,000 annually, the domestic coinage during the fiscal year 1923 amounted to \$172,196,760, of which about two-thirds was in silver and one-third in gold. The mint estimated at the end of the year that the United States had a stock of \$1,677,358,039 in coin—\$916,285,186 in gold, \$491,886,769 in silver dollars and \$269,186,084 in subsidiary silver coin.

"The publication of any figures showing the per capita distribution of money brings an immediate reaction here," Miss O'Reilly said, with a slight chuckle. "Our office immediately gets hundreds of letters from people, stating that they saw in the papers everyone in the country had so much in money and asking for their share. We get a number of pitiful appeals from people, asking for a part of the colossal wealth that we create."

It is a rather odd thing that, while the directing heads of the mint produce such a tremendous amount of money they get an infinitesimal part of it in salaries. The Government pays the Director only \$5,000 a year and the Assistant Director \$3,000. While hardly more than modest stipends are drawn from this organization of fewer than 800 people, who make all this money.

In a business where women have figured so prominently, it would be natural to expect a rapid change in fashions—perhaps a

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Banks in the New Free State

By F. A. CHRISTOPH

THERE is a marked tendency among merchants in the Irish Free State to purchase goods in the country of origin and to discontinue the old custom of purchasing almost entirely from dealers in Northern Ireland and in Great Britain. That tendency, the return of peace and the fact that American goods and agricultural products are in special favor prompts investigation of the possibilities of trade expansion.

With the prospect of closer commercial relations the banking system of the new Free State in which nearly all of the banking business is in the hands of nine joint stock banks becomes a subject of increasing interest.

The Bank of Ireland, the oldest of the joint stock banks, was founded in 1873. In 1920 its capital was increased to £3,000,000 and its exclusive activities were limited to a radius of 50 miles from Dublin.

The Bank of Ireland was not a note-issuing bank, which circumstance presented an advantageous opening for note issues by other joint stock banks in the rest of Ireland. In 1825 the Northern Bank was established. In 1825 the Hibernian Bank and the Provincial Bank were founded, followed in 1827 by the establishment of the Belfast Bank, in 1835 the National Bank, in 1836 the Ulster Bank and the Royal Bank. The Munster Bank, which in 1870 absorbed LaTouche & Company, private bankers, went into liquidation in 1885 and a new company—the Munster and Leinster Bank, formed chiefly of stockholders in the Munster Bank—began business in the same year. In 1920 the National Land Bank, Ltd., was organized with resources of £1,630,243. The private banking business is done by the two firms of Guinness, Mahon & Company, and Boyle, Low, Murray & Company, who have been in business for nearly a century.

The Ulster Bank, Ltd., is now affiliated with the Westminster Bank, Ltd., and the Belfast Bank, Ltd., is affiliated with the London Joint City and Midland Bank, Ltd. Recently the Belfast Bank decided to confine its activities to the Northern Ireland area and disposed of its twenty branches in the Irish Free State to the Bank of Ireland. This is in line with the policy of its affiliated bank, the London Joint City and Midland Bank, to have no branches in a Dominion colony or other foreign country. The largest Irish bank, the National, is engaged in business in England and is actually one of the London clearing banks.

Branch banks have been opened in various parts of Ireland by the banks named, increasing from 888 in 1914 to 1364 in 1923. The power to issue notes has stimulated the establishment of branches. A branch of the bank of issue required but a minimum of legal tender, as it placed its main reliance on unissued notes in its safe to meet the expanding requirements of business. Under the Act of 1829, notes of Irish banks were required to be payable at any branch of the issuing bank, necessitating a larger legal tender reserve than would otherwise be necessary. This act was repealed in 1920 and notes are now payable only at the Dublin or head office.

That Northern Ireland did not escape the world-wide post-war depression can be seen by a comparison of the 1919 and 1921 annual bank state-



The Bank of Ireland at Dublin

ments of the three banks having their headquarters in Belfast. In 1919 prosperity prevailed, prices reaching their highest level about the spring of 1920. Deposits and credit balances, which amounted to £52,537,000 in 1919, increased to £59,168,000 in 1921. Advances of all kinds, which totaled £27,833,000 in 1919, rose to £36,112,000 in 1921. The three banks in Belfast are the Northern Banking Company, Ltd., established in 1824, the Belfast Banking Company, Ltd., established in 1827, and the Ulster Bank, Ltd., established in 1836. The following statement shows their strong financial position:

	Northern Banking Co., Ltd. Year ending Aug. 31, 1922	Belfast Banking Co., Ltd. Year ending Dec. 31, 1921	Ulster Bank Year ending Nov. 30, 1921
Subscribed Capital	£3,000,000	£2,500,000	£3,000,000
Paid Up	600,000	500,000	500,000
Reserve Fund	600,000	550,000	700,000
Deposits and Credits	15,739,000	19,142,000	24,287,000
Advances	10,400,000	13,142,000	12,559,000
Net Profits	131,806	111,102	195,581

Circulation of Notes

IN 1825 the currency of Ireland was assimilated with that of Great Britain. The country is therefore on a single gold standard, the pound sterling being the unit of value. Circulation, heretofore provided by the British Government, afforded Ireland all the advantages of an international money.

The circulation of notes in Ireland is governed by the Irish Banking Act of 1845 and the Currency and Bank Notes Act of 1914. This has given an adequate and elastic currency, the fact of the Act of 1845 strengthening the position of the new issuing banks. The fluctuations in the

note circulation from 1913 to 1922 are shown by the following figures:

1913.....	£8,074,000
1914.....	10,918,000
1915.....	15,000,000
1916.....	19,112,000
1917.....	22,336,000
1918.....	30,896,000
1919.....	29,054,000
1920.....	34,717,000
1921.....	19,052,000
1922.....	17,321,000

Since 1920 a 50 per cent fall in circulation has taken place, due in part to the general reduction in price and in part to the smaller volume of business transacted owing to the disturbed condition of the country.

Following the disappearance of gold at the outbreak of the war British currency filled the vacancy. Irish banks were able to increase their circulation by holding currency certificates instead of gold to cover their extrafiduciary issues. With the stimulus given by profuse public expenditure, the bank note circulation rapidly expanded its movement since 1914 and has demonstrated that the Irish Bank can supply the country with a safe and sufficient paper circulation. The fiduciary issues of the Irish Bank are strictly limited to the total of £6,354,494, balances being covered by gold and silver coin, the latter not to exceed one-fourth of the gold currency notes.

The subscribed capital of the nine joint stock banks is £27,349,231, which consists of £7,609,231 paid up, £5,100,000 subject to call, and £14,640,000 in "reserve liability."

(Continued on page 564)

Plucking Figures Out of the Air for Uncle Sam

By REUBEN A. LEWIS, JR.

How the Treasury Experts Estimate Government Income Two Years in Advance and Forecast Cost of Legislation. Puff of Smoke the Best Barometer of Business. McCoy, U. S. Actuary, Tells How 2½ Cent Rise in Gasoline Brought Excess Profits Tax.

A PUFF of smoke is the best barometer of business.

You may take the word of Joseph S. McCoy, Treasury expert and Government actuary, for it. For while learned economists and statisticians, fortified with elaborate charts bearing jagged lines or curving parabolas, debate what is the most faithful way to feel the pulse of business, Mr. McCoy blandly states that the number of cigarettes sold affords the most reliable barometer.

"At first blush you might think I was talking lightly," he explained, "but there's a lot of psychology and common sense behind it all. When times are good and employment is full the average man buys more cigarettes. He takes three or four puffs from a cigarette and throws it away. When times are hard he smokes it right down to the end. You can get a better idea of the state of business from cigarette sales than from any other source I know."

This is just one of Mr. McCoy's discoveries. His job consists largely of discovering things that are to happen; indeed, he is one of the most distinctive persons on the Federal payroll. He gets paid for peering into the future, translating human nature into figures and estimating—really while McCoy is listed as the Treasury "actuary," he might more properly be termed the champion estimator.

Those inclined to challenge this are invited to visit the National Museum, talk with any Secretary of the Treasury or inquire among the members of the House and Senate who have tinkered with tariff or revenue.

Over in the old National Museum building—where specimens from all mechanical arts are housed—there is a worn-out Comptometer, the first adding and rapid calculating machine of its kind to be produced. Mr. McCoy wore it out. When the Underwood Tariff Act was being framed he estimated the imports and resulting revenues on every

item embraced in all of its schedules. The same task fell to him when the present Fordney-McCumber bill was being passed by Congress.

It is necessary for the Government to know nearly two years in advance what its income will be. The budget system is based on the principle that the nation must not spend more than its income, but it must arrange for the distribution of this anticipated revenue nearly eighteen months before it actually becomes available. McCoy plays one of the principal rôles in estimat-

might imagine. When the Underwood tariff bill was in course of preparation the leaders wanted to put rates into force which would bring the maximum amount of revenue to the Government. McCoy admits that he supplied these rates for fifty important commodities—and it was those customs duties which were written on the statute books.

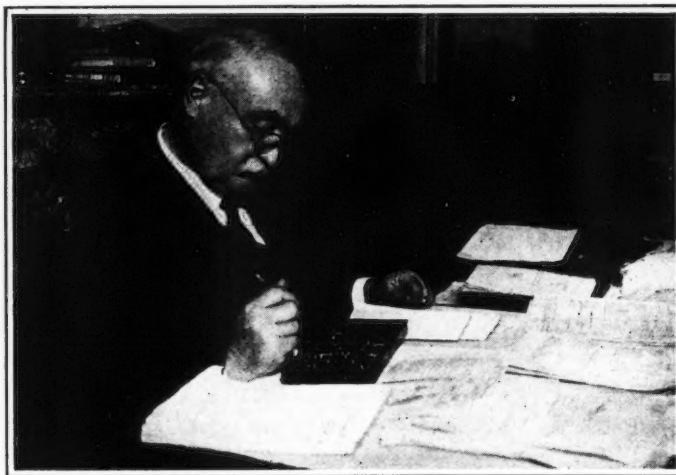
When Senator McCumber offered the soldiers' bonus bill at the last session of Congress, there were five ways in which the veterans of the war might elect to be compensated,

the first of which was in cash. Naturally before the Senate could pass upon the measure with due intelligence it had to know just what percentage of the veterans would take cash and what percentage would avail themselves of the other plans. This was another case for Mr. McCoy, who informed the Senators that, if they should pass the bill as proposed, 90 per cent of the ex-soldiers would take insurance certificates and the total cost would be a little short of five billion dollars.

How does he do it? Does he just guess? Mr. McCoy will never admit that he has "guessed." It is uncanny when you check up on some of his estimates

to find how closely they correspond to the actualities. When the excess profits tax was proposed in Congress in 1918, McCoy, as the Government expert, was called upon to estimate what it would return in revenue when collected during the next year. He submitted an estimate predicting that it would bring \$2,500,000,000 into the Treasury. The exact collections from this source were \$2,505,000,000.

Mr. McCoy is far different in personality from what you would expect in a wizard at figures and estimates. Just the other side of fifty, his thirty years of service in grappling with figures, computations and Congressmen have not robbed him of a philosophy rich in humor and human nature. He is the soul of geniality. His workroom



Harris & Ewing

Mr. McCoy at His Work Aided by a Chinese Counting Board

ing what Uncle Sam's total income will be. What an error of any magnitude would mean is obvious—it would be like a monkey-wrench in the Federal machinery.

When any legislation affecting revenue is proposed in Congress, the first question put to its sponsor is: "What would this cost?" The next step is to find out.

"Ask McCoy"

THIS generally resolves itself into "Ask McCoy!" It is no secret that this genial fellow, equipped with his Chinese counting board and a seemingly inexhaustible store of general information about all things, has played a far more important part in the shaping of the nation's laws than one

is one of the quiet offices on the first floor of the Treasury that looks out upon the grounds of the White House. The champions of the clean desk would have to strike McCoy off their list, because his table is piled high with all sorts of reports, books and documents. There is reason to believe it hasn't been clear in years. And yet, he was educated to be an engineer at Stevens, built a ship in John Dialogue's yard, designed a locomotive for the Baltimore & Ohio that is running yet, and left the railroad because there "was too much politics," to enter the Government service.

As to Mr. McCoy's personal attributes, it can not be said that courage is lacking in his makeup.

Where the Excess Profits Tax Started

HE confesses that he is the author of the excess profits tax. At least, he admits the idea is his.

"Back in 1914 the late Senator Hughes of New Jersey came to me all wrought up," McCoy said, with a slight chuckle. "The oil companies had just raised the price of gasoline from 10 to 12½ cents a gallon. 'It's an outrage the way they are profiteering,' the Senator said. 'Isn't there some way we can stop it?' I thought about it a while and then said: 'Why, yes, Senator; we can stop it. All you have got to do is to make a study of what would be a fair price for gasoline, allow a profit of, say, 25, 50 or even 100 per cent, and then frame a tax that would bring all in excess of this figure back to the Government. This would destroy any incentive the oil companies would have for boosting the price of gasoline beyond this level—and it would effectually stop profiteering.' And that was the germ of the iniquitous excess profits tax! However, it is interesting to note that this tax provided the greatest amount of revenue that a single levy ever brought in the history of the world. In one year, it produced two billion and a half dollars."

A great part of Mr. McCoy's time has been devoted to taxes. He confesses to have made a study of the tax system of every country in the world. One of the most difficult tasks assigned to him was that of estimating what the first income tax would yield in revenue. It was an innovation in the United States and there was nothing exactly comparable anywhere in the world. But, nevertheless, the Ways and Means Committee of the House of Representatives, where all measures for the raising of revenue must originate, called upon the Treasury for estimates, showing just what the imposition of this new tax would bring and it was another job for McCoy.

"Weren't you lost? Just how did you go about getting an estimate?"

"Well, it wasn't exactly a virgin field," McCoy replied. "You know there is really nothing new under the sun. Thirty years in this work has taught me that—whatever is, has been before. There's nothing new in

history. Perhaps that is one of the reasons I believe so firmly that if a nation is taxed too high, the Government will not last.

"When our first income tax was proposed—and it is timely to note that the normal rate was one per cent and the surtax only 6 per cent—England had a system. However, there was a flat rate on incomes and it was impossible to ascertain the number of taxpayers, because so much was collected at the source. There were certain abatements on the lower incomes, which further complicated the matter.

"In Prussia and Saxony, however, I

me from undertaking to make the estimates.

"Suppose you had acquiesced in the manufacturers' request, how would you have gone about it?"

"Why, it would not have been so hard. First, I would have observed how many of my friends owned high grade watches. Then I would have inquired how many expected to purchase them. By making a number of investigations, I would have been able to have arrived at some rather accurate idea. Then by applying this to the total population, I would have framed my estimate."

Naturally thirty years' contact with taxation has not failed to leave its imprint. And, during this time, Mr. McCoy has gained some rather definite ideas, despite the fact that he has worked for the members of Congress of both political parties. In connection with the Mellon scheme for a revision of taxation, Mr. McCoy has two interesting discoveries—the first was that 985 people, according to the latest figures, paid more than 20 per cent of the entire individual income tax and the second was that no individual, returning income in excess of \$3,000,000 annually, paid any normal tax whatever. The explanation he gives is that no normal tax is paid on dividends, on interest from government bonds or on personal exemptions.

"There are certain paradoxes in the realm of taxation," Mr. McCoy said. "One is that reducing taxes does not necessarily reduce revenue. On the other hand, increasing rates does not bring more revenue. The 1921 Revenue Act lowered the maximum income tax from 65 per cent to 58 per cent and eliminated the excess profits taxes. But yet, the first year under the lower rates produced \$300,000,000 more for the Government than did the higher rates the year before."

"Have you estimated what maximum surtax would bring the greatest revenue to the Treasury?"

"I have not worked that out, but even 25 per cent is too high. It is out of line with the rates on the smaller incomes. This surtax, however, would not bring the largest yield. Secretary Mellon, in presenting his plan for a revision, conceded that there would be a loss of about a hundred million dollars to the government by lowering the surtax from 50 to 25 per cent, but he believed this was needed to stimulate business.

The Clog on Business

THERE is one thing which appears to be overlooked in considering tax revision—the great disparity in the rate on corporation earning and upon the income of an individual. Corporations do not pay surtaxes. Therefore, out of every dollar they earn, they can put 87½ cents back into their enterprises. The individual, with an annual income running over \$200,000, who



found systems that provided me with the base for my estimates. The Germans, you know, are very thorough in their statistics and in these states there was a graduated surtax system. From the data there, I made a table of what the German tax applied in this country would mean. However, this did not suit me because the conditions were different. In Germany, I found that incomes were taxed that were too small for us to tax. This was different in principle from the American income tax—so I had to make numerous adjustments. I had to use what we call the 'factor of safety'—which perhaps is another word for common sense. But, at any event, that was how I framed the estimates. And really, they didn't go far astray."

How Many Watches

"NOT long ago, the manufacturer of a high grade watch wrote and asked if I would estimate how many watches of this type the American people might buy. I have had many similar requests, but the pressure of government work has prevented

wants to invest in a business, is at a disadvantage. Of every dollar earned over that mark, the government gets 58 cents, leaving him only 42 cents. Thus the corporations are in a position to put their earnings into extensions, without having the state take the greater part of it, while the individual does not get even half of what he earns. Prosperity and full employment are created by the extension of business and unless some relief is given to capital, there will be no such extension. This condition is now the clog on business."

Estimating what business conditions will be during the next two years naturally falls within the scope of McCoy's work, because the government must forecast what its income will be. This is directly affected by the condition of industry and commerce, which pay taxes in proportion to their earnings. For this reason, the experts must keep their ear to the ground and their eyes alert for signs of prosperity or depressions.

Mr. McCoy contends that the best single barometer of business is cigarette sales, which may be accurately gauged by the internal revenue taxes. The prices of government securities, under normal conditions, he regards as a good index of prosperity. The danger signal is advancing prices.

"If you find prices advancing rapidly, you know something has got to break. Prices depend on the cost of production. When this soars too high, the whole scheme starts to topple over. One of the first signs of unemployment is this break."

"What do you think 1924 holds for business?"

"I think there is going to be good business during the present year," Mr. McCoy replied, reflectively, "but the country will not make as much in profits as in 1923. A sensible revision of taxes will do much to stimulate business, but a reduction of taxes, without regard to the sources that bring increases in business, will not help to any appreciable extent."

Mr. McCoy admits that he has been called upon to make some rather minute estimates during his period of service. Long before the nation chanted that there were no bananas, he was requested to estimate how many bananas the American people eat so that a tax to get the maximum amount of revenue from this source might be levied. The champion estimator has already compiled a table of population, assuring the Treasury that it may count on an increase of 1,417,550 in population by next January. If you are interested in knowing how large the United States will be during the first month of the next six years, here are Mr. McCoy's figures:

1925.....	111,976,950
1926.....	113,394,500
1927.....	114,812,900
1928.....	117,653,250
1929.....	119,075,700
1930.....	120,500,000

Inasmuch as the census is taken only every ten years, McCoy is more or less of a substitute for the actual count. His estimates are employed by the Treasury in determining the per capita circulation of money and in preparing other statistical tables.

The Most Common Error

"IN your thirty years of estimating what do you find to be the most common error that estimators make?"

"They use too many figures and too little common sense," he responded, without a moment's hesitation. "Knowledge of the habits of the average man is most valuable. In estimating, you have to figure on what the average man will do. One time I had to estimate how much of the money in circulation was carried in cash. When I went in the stores, I observed how many people paid their bills in cash or by check. I asked some of my friends how much they generally carried in money and checked up in several other ways. The result was satisfactory and tallied pretty closely with the other figures we had compiled in other ways."

"What have you found to be of most help in making estimates?"

"General information," McCoy admitted. "When I was a youngster of about fourteen I remained out of school one year. There was a bible, a set of Chamber's Encyclopedia, Shakespeare and Dickens. I read them all. I read every word in the encyclopedia from beginning to end. It's surprising how much general information I got from those fifteen volumes. From time to time, I have been borrowed by the State Department to assist in the drafting of commercial treaties. To prepare myself for this work, I had to make a study of the resources of each country, a survey of their imports and exports and an investigation of general conditions. Of course, all this has helped me when I had to estimate what an advance of 10 per cent in a tariff rate would mean to trade. But even a most profound lot of general information will not help if you do not use common sense."

The phone rang.

"All right," Mr. McCoy said, concluding the brief conversation.

"The Secretary's office wants to know what the Democratic tax revision program would cost," he commented. "So I suppose I'll have to get to work with my Champan."

He reached for a queer looking contrivance, with rows of wooden balls strung on a series of wires.

"This Chinese counting board, the forerunner of the computing machine, was the basis of the decimal system. It was in existence hundreds of years before we had Democratic or Republican parties—but not before taxes."

Increase in Business

The industrial and trade reports in recent weeks have generally confirmed the earlier indications of an increase in business activity since the first of the year, the National City Bank states in its review of business conditions. March opens with symptoms in evidence which in the main are the same as those which accompanied the prosperous conditions of last year. While not up to the peak levels of last year, the majority of business indexes, such as railway traffic, factory employment, and the volume of checks passing through the banks, indicate that production and distribution on the whole have been moving forward at approximately a normal pace.

Banks in New Free State

(Continued from page 561)

In addition to the subscribed capital, reserve funds totaling £6,170,000 accumulated out of profits increase the aggregate to £33,519,231.

Shareholders of banks of issue carry unlimited liability to holders of note issues. Most of the Irish banks follow a policy of building up strong inner reserves, the amount of which is not disclosed in the balance sheet, in order to meet contingencies.

During the years 1913 and 1922 deposits increased from £71,000,000 in the former year to £210,000,000 in the latter, despite the unsettled conditions prevailing in the country. Loans in advances of Irish banks in 1915 were £44,706,000 and in 1922 £104,507,000, an increase of £59,801,000, approximately one-half of the increase in deposits for the same period. The investments of the nine banks totaled £103,000,000, an increase of £22,000,000 over the previous year, and consisted of Government and other securities.

Cash holdings in the nine joint stock banks were reduced some £10,500,000, due in part to the decrease of £1,700,000 in the note circulation backed by currency notes. At the close of 1922 the ratio of cash, including "credit balances in London" and "money at call and short notice," was only 13.1 per cent of liabilities as compared with 20 per cent in England and 21 per cent in Scotland, the lowest level recorded during the past thirty years. The ratios of "bills discounted and advances" to liabilities are: Ireland, 43.1 per cent; England, 58.3 per cent; and Scotland, 43.9 per cent, indicating that after due allowance is made for the special money market business which goes with the banking of England, Irish trade and industries are receiving a reasonable amount of loans by comparison.

Problems awaiting the solution of finance are the housing, land purchase, agriculture, drainage and reforestation. The partition of Ireland and the fiscal separation from Great Britain has necessitated adjustments in currency and banking in both the Irish Free State and in Northern Ireland. The Free State Government contemplates meeting its fiscal needs by loans. Many of the bank investments in British Treasury Bonds will no doubt be then shifted into Free State bills.

Chief importance with relation to savings banks attaches to the Post Office, whose deposits just before the war were from £13,000,000, which have now, however, been reduced to about £11,000,000 because of investments largely in war loans. Trustees Savings Bank deposits have remained steady at £25,000,000, being supplied by a limited class of the town population. At the lowest, a loan of important amount is obtained at a rate of interest around 2½ per cent.

In Praise of Wilson

"But for the firm, irrevocable purpose of President Wilson to reform our archaic banking and currency system, and his persuasive, as well as commanding, leadership of the movement, there would be no Federal Reserve system."—Carter Glass.

Perpetuating the Usefulness of Bequests

By RALPH HAYES

The Community Trust Has for Its Object the Projecting of the Donor's Spirit Down Through the Years, Unhindered by More Technical Limitations. An Example of the Mischief Done by the Passage of Years to Allocations of Capital for Specific Purposes.

TEN years ago the Community Trust movement did not exist. Today, it is established in more than fifty cities. It has resources of perhaps \$15,000,000. It is distributing annually upward of a half million dollars. And it has funds assigned to it in wills and otherwise, running, no one knows how far into the hundreds of millions. The idea has swept over the country with such speed as to put the emphasis now, not upon spreading it further but rather upon discouraging its too rapid and indiscriminate expansion.

John W. Davis, the former Ambassador to Great Britain, once heard the Vice Chancellor of the University of Cambridge making an appeal for funds. The Ambassador asked how an institution that had lasted through so many centuries and had drawn to itself the constant benefactions of so many generations of Englishmen, should be so in need of funds. And the Chancellor replied that it was a fact, a melancholy fact, that all the funds which that great University possessed that had not been allocated permanently to narrowly specific and sometimes obsolescent purposes, produced less than two thousand pounds a year.

"Such is the effort of the human mind," Mr. Davis said, "to project itself into infinity, and such is the inability of man to conceive any other world than that in which he lives."

Hard to Pierce Future

WE needn't go as far as Cambridge, England, to illustrate that same phenomenon—the futility that Omar Khayyam sang about, a thousand years ago—the helplessness of human eyes to pierce the veil that hides the future. Across the Charles River from our own Cambridge in Massachusetts, and within the memory of men now living, a Committee of the Bay State Legislature reported adversely a resolution which proposed to give to married women the right to possess as their own "property acquired from parents or friends, or by their own labor or thrift." Such a step was too revolutionary to be foreseen by those legislators of 1848. They had their reasons, too, highly illuminating ones as told to me by Rupert Hughes who found them in McMaster's History. This is why that committee demolished the presumptuous claim that married women be allowed to own the property they had earned by their own labor:

"To give women such a right," it reported,

"would bring them into contact with the roughest scenes of life, would destroy their sensibilities, weaken their dependence on man, and thereby take away one of the loveliest of their charms."

When that committee made its report to the Legislature, Charles W. Eliot was a young man about to enter Harvard College. He is still there, as its President Emeritus, and still a young man—of ninety. I mean to say that living men have seen the whole march of social readjustment from that time to this, when women are not only property owners and voters and jurymen, but members of Congress and Parliament and Supreme Courts. My County in Ohio a few weeks ago elected a female sheriff.

Hundreds upon hundreds of semi-moribund endowments reveal the failures of our forebears who prescribed for what they thought were permanent conditions, but which proved to be only temporary. So when we voice the warning, with respect to these philanthropic bequests, that the unforeseen developments of an unknown hereafter justify our giving to future generations that degree of discretion which the Community Trust provides, we have every page of history supporting us.

Placing Fortunes With Undying Trustees

THIS, then, is the message of the Community Trust to the individual who aims to keep some part of his resources permanently and usefully at work on civic projects: Set up your bequest with whatever directions or instructions you think essential or desirable; but safeguard it financially by placing it in the keeping of an incorporated, specialized, trustee that will not die or grow negligent or become unfaithful; and safeguard it socially by putting representatives of yours on watch forever with instructions to exercise eternal vigilance over the spirit of your bequest, however much the world should change its ways when you have gone."

Dr. Irving Fisher of Yale says this:

"The experience of Russia demonstrates what most of us economists have long maintained from *a priori* reasoning, that communism is bound to fail by taking away one of the strongest incentives toward accumulation. Our capitalist system has justified itself from the standpoint of stimulating production by allowing a man in his own life-time to enjoy the fruits of his efforts. But what is as yet only dimly appreciated is that this principle does not apply so fully beyond the accumulator's lifetime and applies scarcely at all beyond the lives of his relatives in being. . . . I regard the Community Trust as potentially the most significant innovation in our capitalistic society, and unless it itself leads to some unforeseen abuses, it

bids fair to solve, to a large extent, the problem of wealth distribution and prevent the ultimate upset of democracy through hereditary plutocracy."

I have faith that men some day will think it strange that we ever doubted or hesitated about this doctrine of the Community Trust, this effort to shackle the Dead Hand. In every century people have been pushing forward some struggle for liberty, pressing on to some new freedom—freedom of worship, freedom of person, freedom of press, freedom of speech. Eventually these come to be more or less accepted as *natural* rights, and one generation wonders why older generations questioned them. I venture the assertion that the Community Trust will help to beget a new conception of the Freedom of Property—a conception that starts with the *cy pres* doctrine already advanced by the courts and develops from it a new flexibility in the administration of endowments in the future; a conception that assures the use of the accumulated funds of tomorrow to serve the requirements of that day rather than the perhaps obsolete needs of this day; a conception that adds to the foresight of prophets the hindsight of engineers.

London-Ireland Exchange

AN interesting consideration of London-Ireland Exchange recently appeared in "Commerce," published by the Commerce Society University College, Cork. The writer, John B. Colbert, observed that "the question as to what monetary system is best suited to the needs of the country forms one of the chief problems that will confront the Irish Free State when its political complexion is finally adjusted. We may elect, on the one hand, to remain as far as circumstances will permit, in the status quo: to tie our currency to that of Great Britain and maintain a limited interchangeability of legal tender between the moneys of the two countries. On the other hand, as we will have complete fiscal autonomy, it will be open to us to establish a separate and independent monetary unit."

After discussing various aspects of London Irish Exchange, the writer says: "If we allow our currency to drift away from that of Great Britain, it may mean the erection of a new economic barrier to emphasize the political distinction between the northeastern counties and the rest of Ireland. Or, again, it may have the effect of preventing us from borrowing in the London capital market except on very onerous terms."

Banker Morgan's \$8,500,000 Gift

By CONKLING HONSFORD

Matchless Collection of Manuscripts and Books, Which the Late J. Pierpont Morgan Gathered From All Parts of the World, Given to Public By Son. Original Documents that Washington and Lincoln Signed Among Literary Treasures.

THIS is an age of great gifts, a time when the handing over of mammoth fortunes for public or for private use receives but scant attention from the general public. To transfer in a moment what it has taken a lifetime to accumulate is an almost day by day spectacle, yet, notwithstanding the age and the custom, the gift of the J. Pierpont Morgan Library in February to the use of the public stands out as one of the great public benefactions of all times.

It stands out because the gift is of things which, for their literary, ecclesiastical, historical or patriotic associations, are of a value that is beyond appraisal. And it stands out also because—going to the commercial side of this act for the benefit of civilization—the gift, either as a whole or in part, could have found a quick market for at least \$8,500,000. The donor in a general way placed that value upon it, including an endowment of \$1,500,000. Others have thought that the gift had a total value of twice that sum.

The Morgan Library, situated on East Thirty-sixth Street, New York City, just in the rear of the Morgan Mansion, was erected by the late J. Pierpont Morgan, who was an ardent collector of books and manuscripts, as a repository for his treasures. Even as a mere structure the library has long been one of the buildings of which New York City has been proud. It is a masterpiece of architecture of its kind.

The elder Morgan collected far and wide and with a discerning eye. The superior knowledge he displayed in financial and economic matters had a counterpart in his literary and artistic sense.

The library is a veritable treasure house

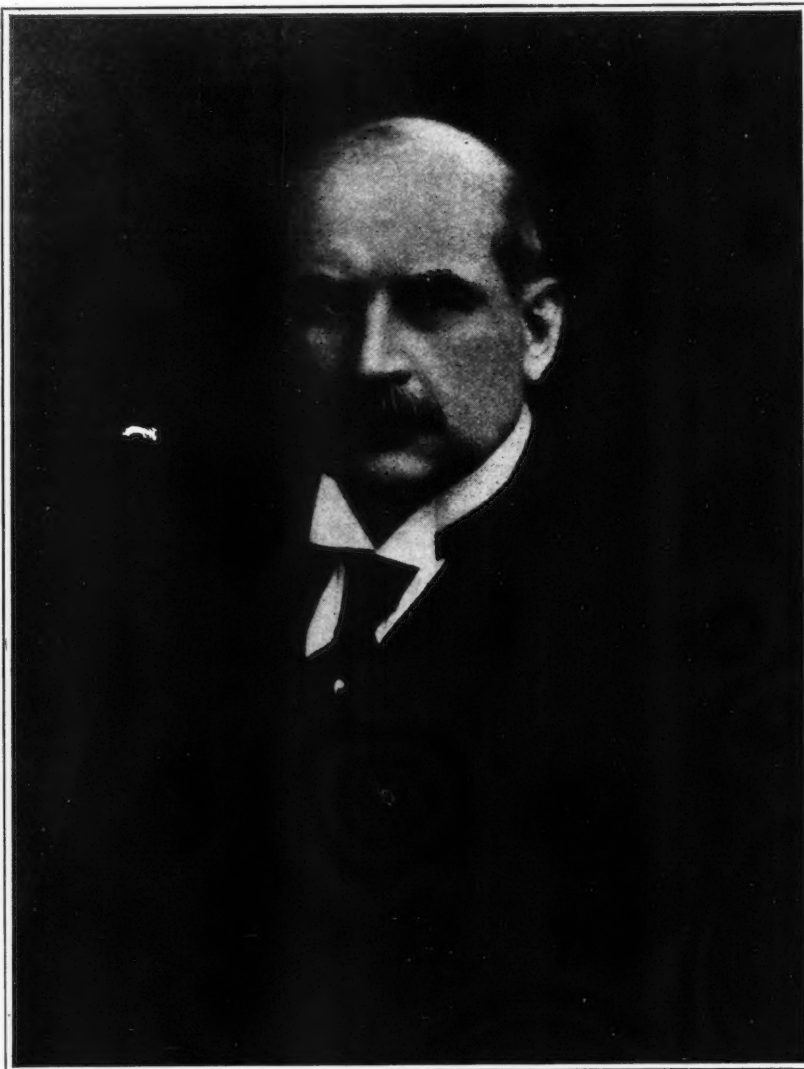
There are bibles, testaments, psalters, missals, prayer books, etc., dating from the beginning of printing. There are Babylonian and Assyrian inscribed seals and cylinders and cuneiform inscribed tablets dating from the third millennium B. C., gold and silver

Roman and Greek coins and many other valuable coins of lesser antiquity.

There is a long list of autograph manuscripts, including those of Marie Antoinette, Victor Hugo, Emile Zola, George Sand, Alexandre Dumas, Keats, Boswell, Dickens, Scott, Lamb, Thackeray, Thomas Moore and many others. Lovers of Dickens will be interested to learn that the original manuscripts of "The Cricket on the Hearth," "The Battle of Life," "Hunted Down" and others are among the literary treasures. Those whose heart beats quicken with the reading of Thomas Moore may even feel a little thrill of proprietary interest in the fact that the original manuscript of "Lalla Rookh" is forever preserved as a public document.

It is not to be assumed, however, that the public may at its pleasure go to this library and fondle these treasures. If that were permitted, many of the most valuable things would soon pass out of existence. This is to be a reference library for scholars. Only by restricting its use may its contents be preserved.

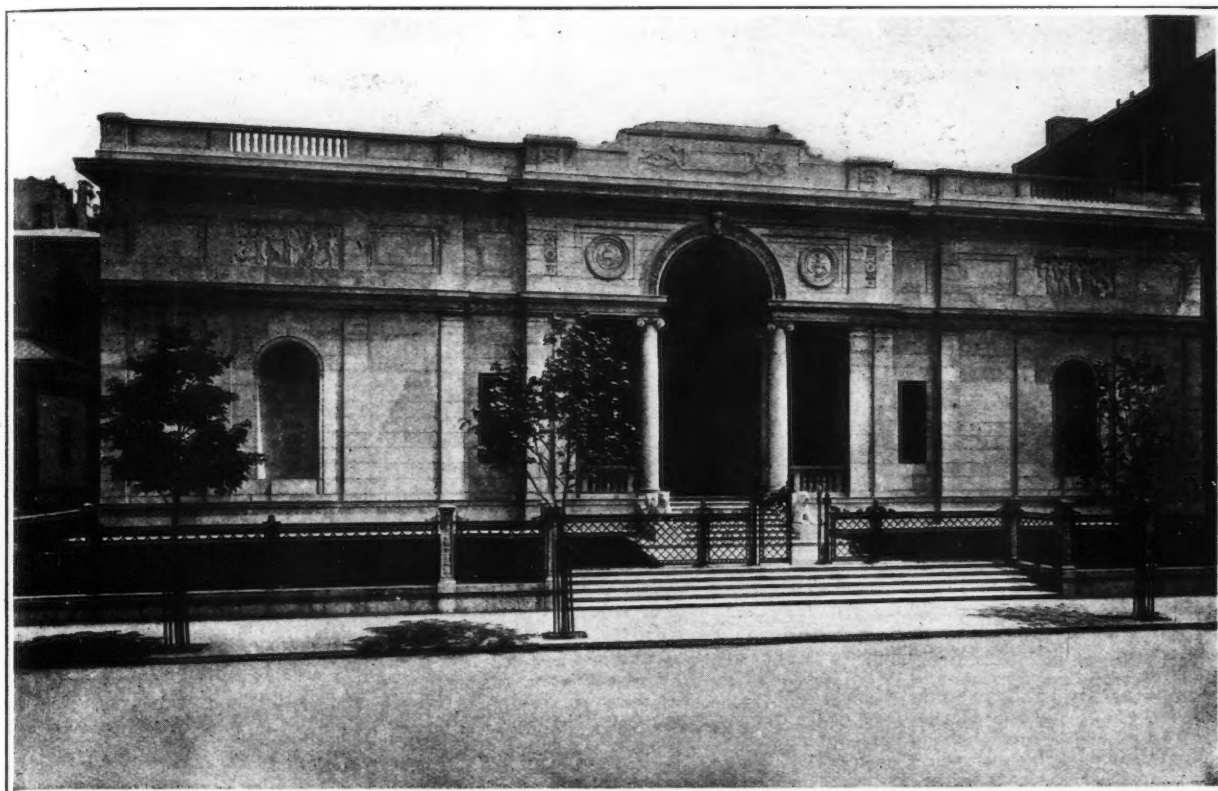
But by restricting the use of the library to scholars, to those who have a real reason for consulting some of its authorities, the



The Latest Photograph of J. Pierpont Morgan, Donor of the Library.

Pack Brothers

for a scholar. There are, for instance, 560 volumes of illuminated manuscripts dating from the sixth to the sixteenth century.



Morgan's Magnificent Library Where the Japanese Loan was Signed

Brown Brothers

great collection may be preserved for the greatest degree of utility.

Among American authors there are the manuscripts of Poe, Whitman, Whittier, Holmes, Lowell and Bret Harte.

The historical manuscripts include the following:

George Washington—Volumes of his correspondence with George and James Clinton, Laurens, Jefferson and others, also a six-page letter to James Madison, dated Mount Vernon, 1792, asking Madison to prepare "a valedictory address from me to the public," and giving his idea of what such an address should embody, and letters (1794-96) addressed to the King of Prussia and Emperor of Germany, asking for the release of Lafayette.

Letters and Documents (2 vols.) concerning the campaign of Yorktown, signed by Washington, Cornwallis, Laurens, Greene, Lafayette and others.

Abraham Lincoln—Autograph Letters and Documents and poem, "The Bear Hunt."

Grover Cleveland—Autograph Letters and Documents.

Theodore Roosevelt—Manuscript of his Autobiography.

The larger part of the collection of Coptic manuscripts, consisting of over sixty volumes and fragments, was discovered in the spring of 1910 by a group of Arabs digging on the site of the ancient monastery of the Archangel Michael, on the border of the province of Fayum, in a small locality known as Hamouli, and was purchased by Mr. Morgan in 1911.

They range in date from the ninth to

tenth century, about twenty of them being dated from 823 to 914 A. D., some of those undated being undoubtedly earlier.

Concerning the Coptic manuscripts referred to above, Mr. Morgan said: "The custom was that whenever they made a find of that kind the head man would tear up the manuscripts and distribute the leaves among the villagers to sell as they could. My father happened to get hold of these before they were dispersed.

"Their restoration was undertaken by the Vatican. They had the one man in the world there who knew how to do it. The process is perfectly marvelous. They treat the leaves with a gelatine mixture, and it seems literally to bring them back to life. The Vatican was interested in these Coptic texts, as they furnish valuable variations in biblical texts, as well as other material. The present Pope, who was then Monsignor Ratti, took a personal interest in the restoration of these texts.

"As fast as they were finished, they would send me photographic copies of the text. They kept one set themselves and now have them. So much work did they put in on these texts that when they were finished there were six men who understood the restoration process instead of one."

The gift includes the library proper, consisting of manuscripts, books, tablets, paintings, etchings, etc., the library building, and an endowment of \$1,500,000. The gift is made to a board of trustees, of which Mr. Morgan is chairman, which board has power to fill any vacancies, and the transfer has the provision that the gift shall remain intact for 100 years.

A few days prior to the announcement of this gift the library was the scene of an important new chapter in the financial history of Japan. Three financial experts of the Flowery Kingdom, on the night of February 12, signed a contract with four prominent American financiers whereby Japan gets in America a loan of \$150,000,000 with which to repair the damage wrought by the great earthquake of 1923.

The consummation of the negotiations was brief and unostentatious. At 10 o'clock at night the three Japanese envoys stepped into the library, and in a reading room met eight American financiers. Fifteen minutes later both the Japanese and Americans emerged and the announcement was made the \$150,000,000 of Japanese Government bonds would be offered here by American bankers. At the same time the Japanese have arranged for a loan of 25,000,000 pounds sterling in London.

The signatures to the American loan contract were in the following order:

Kengo Mori, H. Tsushima, R. Ichinomiya; J. P. Morgan of J. P. Morgan & Company; Mortimer Schiff of Kuhn, Loeb & Company; Charles E. Mitchell, for the National City Company; and George F. Baker, Jr., Chairman of the Executive Committee of the First National Bank.

Besides the signers there were present Thomas W. Lamont, Dwight W. Morrow, Thomas Cochran and Russell C. Leffingwell, partners in J. P. Morgan & Co., and Henry S. Morgan, son of J. P. Morgan, who was graduated last year from Harvard and is now at work in the Morgan firm.

The Spring Meeting at Augusta



The Bon Air-Vanderbilt Hotel, Where the Meeting Will Be Held

FOR their spring meeting the members of the Executive Council of the American Bankers Association this year will turn to the Southland. They will gather at the Bon Air-Vanderbilt Hotel, Augusta, on April 28, and the meeting will be continued to and through May 1.

From year to year the spring meeting increases in its value to the members of the Council and in turn to the welfare of the Association. This year will be no exception. The discussions, which alternate with the transaction of the routine business of the Council, are being planned with the dominating thought of bringing out that which shall be helpful to the banker, because it is helpful to business in general. The spring meeting of last year was notable in this respect. The thoughts enunciated by

bankers, business men and farmers, and the authoritative overseas viewpoints of international relations which were read and discussed, were of inestimable value to the business.

For those attending the spring meeting from New York and connecting points, special Pullman cars will be provided by the Pennsylvania Railroad for the exclusive use of the bankers party.

The train will leave from the Pennsylvania Station, New York City, Saturday, April 26, at 10.10 a.m. (connection from Hudson Terminal 10:10 a.m.); Newark, Market Street Station, 10.33 a.m.; North Philadelphia, 12:01 p.m.; West Philadelphia, 12:13 p.m.; Baltimore, 2:25 p.m.; arriving at Washington, 3:20 p.m.; leaving Washington

3:40 p.m.; arrive Augusta Sunday, April 27, about 8:30 a.m.

As is customary, there will be a "Spring-tonic" special train from Chicago, and special cars from St. Louis will connect with this train. The special will leave Chicago for Augusta Friday morning, April 25. The exact leaving time and route have not been determined. This special will run via Birmingham and arrive at Augusta Sunday morning, April 27. The Southern Railway will be used on return trip from Augusta to Washington.

The Bon Air-Vanderbilt is located on the heights of Augusta, overlooking the Savannah River and the town. It has the unique advantage of giving all the benefits of a delightful rural resort with the added convenience of close proximity to a city.

National Banks Trust Department Conference

THE first conference of national banks with fiduciary powers ever held was convened in the Chamber of Commerce, Kansas City, Mo., on Feb. 20 with Charles W. Carey, president of the First National Bank of Wichita, Kan., as chairman.

E. L. Mattson, vice-president of the Midland National Bank of Minneapolis, in addressing the conference said: "The big thing before us is to sell the idea to the public that we are not functioning through a subsidiary trust company, that it is not necessary to deal with our clients through some other kind of a corporation, but that a national bank has the right, under the acts of Congress, to do everything that the client desires to have done, as a national bank. If we keep that in mind and keep it before the public constantly, the public will become accustomed after a while to the idea that fiduciary activities are not confined solely to trust companies and we will take our rightful place in the business."

The program, starting with a paper on the general organization of a Trust Department by J. W. Hudston, Trust Officer of the Denver National Bank of Denver, Colo., covered a wide range of fiduciary activities. It included the following: "Administration of

Estate Under Will," Lester W. Hall, Vice-President, Fidelity National Bank and Trust Company, Kansas City, Mo.; "Voluntary or Living Trusts," Frank N. Bancroft, Trust Officer, Colorado National Bank, Denver, Colo.; "Trust Department Advertising and Publicity," L. L. D. Stark, Assistant Trust Officer, Midland National Bank, Minneapolis, Minn.; "Investment of Trust Funds," Judge Thos. H. Owen, Vice-President and Trust Officer, American National Bank, Oklahoma City, Okla.; "Discrimination Necessary to Avoid Questionable Trusts," J. H. Stewart, Vice-President and Trust Officer, First National Bank, Wichita, Kan.; "Management of Trust Department in Smaller Community," Wood Netherland, Assistant Cashier, First National Bank, Fort Smith, Ark.; "Accounting and Recording Forms," Robert Neill, Vice-President, Arkansas National Bank, Hot Springs, Ark.

Membership Contest Between States

ANATIONAL organization of bankers is essential to the well being of every bank, large or small, and without regard to its location. It is especially essential to the isolated banker, for through it he may keep in touch with the heart of organized banking activities and may get numerous direct

benefits and innumerable indirect benefits which come from the cohesion of the banking class as a whole.

Tom J. Hartman, president of the Producers National Bank of Tulsa, Okla., chairman of the Membership Committee of the American Bankers Association, has under way a membership campaign to bring to the attention of non-member banks the advantages accruing to them through this affiliation. The country has been allotted among the twelve members of the committee, and those who are not now members of the Association may attain membership for the remainder of the fiscal year, ending Sept. 1, for one-half of the annual dues. A contest between the states of Missouri, Kansas and Arkansas, under way now, is a feature of the membership drive. It was arranged by H. Y. Lemon of Kansas City, to whom these three states were allotted.

The membership percentage at the start in the three states was as follows: Missouri, 62.04; Kansas, 67.58; Arkansas, 63.07 per cent. Every non-member bank in the three states will be seen by someone representing the committee. Every member banker who aids in this work adds to the strength of the national organization which serves the whole field. But he renders to the bank not now participating in the many A. B. A. benefits a greater service when he induces it to apply for membership.

Federal Law to Protect the Unwary

By E. E. DENISON
Member of Congress from Illinois

Federal Blue Sky Bill Seeks to Prevent Fraudulent Security Operators Driven from One State, from Sniping Across the Border. Only Four States Lack Protective Laws. American People Work Nearly Week a Year for Wily Promoters.

THE whole American people work nearly a week every year for the pirates of promotion—that surprisingly large band of dealers in fraudulent and worthless securities. Our national income is estimated to be about sixty billion dollars a year. While the toll taken by the piratical tribe can not be definitely fixed, the widespread nature of its operations was just recently indicated when Horace J. Donnelly, Sr., the Assistant Solicitor of the Post Office Department, told a convention of investment bankers: "It is not extravagant to say that a million gullible Americans yearly lose their money and property in mail fraud schemes and that a billion dollars annually are so lost."

Official estimates have gone out that the people of this country have lost as much as \$500,000,000 annually through the sales of spurious securities. The Treasury Department asserted that \$400,000,000 worth of Liberty bonds were taken from purchasers in some of the states in the Middle West in a few months in exchange for these worthless or doubtful securities that promised larger returns.

Out in Oklahoma in 1917, a prominent newspaper made an investigation of the stock-selling oil companies. It found that the stock-promoting companies actually produced less than two one-thousandths of 1 per cent of the oil extracted from the ground that year. For every \$555 of capitalization, only \$1 worth of oil was produced.

Just as impressive was the compilation of a list of companies whose securities were worthless and obsolete made by a dealer a few years ago. His book was a fat volume of 718 pages. Listed therein were 18,000 companies. Seven years later, the book had grown to one thousand pages and the number of companies had increased to 268,000. As far back as five years ago the capitalization of get-rich-quick promotions exceeded three billion dollars.

Kansas Blazes the Trail

THE operations of these financial brigands have extended over a long period of years and, one by one, nearly every state has acted to curb the get-rich-quick men. Since Kansas blazed the trail in 1910 with the first so-called blue-sky law, forty-three states have adopted fraudulent security laws. Colorado, Connecticut, Delaware and Nevada are the only exceptions.

And yet, while practically all of the states have effective laws to prevent the

sales of worthless securities within their own boundaries, they are powerless to stop it. The United States mails and the other agencies of interstate commerce, over which the Federal Government is by the Constitution given exclusive control, are being used by dishonest promoters to violate, evade and, to a great extent, nullify the laws which the states have passed to protect their own people. It is to do away with this weakness in the armor against the suppression of these frauds that I have sponsored H. R. 4—a bill to prevent the use of the United States mails and other agencies of interstate commerce for transporta-



Representative E. E. Denison

tion and for promoting or procuring the sale of securities contrary to the laws of the states.

A similar bill was introduced by the author in the 67th Congress, was favorably reported to the House by the Committee on Interstate and Foreign Commerce after exhaustive hearings, and passed the House of Representatives by almost a unanimous vote. That bill was referred to the Senate Committee on Interstate Commerce, where hearings were held near the close of the Congress. On account of the legislative situation in the Senate the bill could not be reached for consideration and it failed to become a law.

H. R. 4, now pending in the 68th Congress, is the same as the bill that was considered in the present Congress except that it embodies certain changes which were offered by the author as amendments at the Senate hearing.

This bill, usually referred to as the Fed-

eral Blue Sky Bill, represents some three years' careful study of the fraudulent securities laws of other countries and of the different states. Every provision in it has had the study and scrutiny of able state officials experienced in the administration of blue-sky laws, and of able and practical bankers.

State Laws Help

THE loss of hundreds of millions annually in worthless securities creates an appalling situation and Congress is confronted with no more important duty—to my mind—than to pass legislation that will remedy this evil. It is believed that the pending bill will afford the remedy. The present postal fraud laws have proved wholly inadequate. They simply punish fraud after it has been committed, after the losses have been sustained, and after the criminals have been found and convicted. What is needed is a comprehensive law that will prevent the commission of fraud and save the American people from these tremendous annual losses.

While the state laws are by no means perfect, they are being improved from year to year by the light of experience and are being made more and more effective. They afford the people of those states reasonable protection from dishonest promoters, who would sell their spurious and valueless securities.

L. L. Emmerson, Secretary, State of Illinois, has recently made the statement that during the four years since the Illinois Securities Law became effective more than \$350,000,000 in doubtful or fraudulent securities had been barred from sale in Illinois.

A statement recently issued by Peter G. Cameron, Secretary of Banking, to the Pennsylvania State Chamber of Commerce, claims that \$116,960,000 have been saved to the people of Pennsylvania during the eighty days since the blue-sky law of that state went into effect. Other similar statements could be made by the officials of other states having similar laws.

The crooked promoters, when driven from the various states by the passage of blue-sky laws, have generally moved over the borders into the nearest states and, by virtue of the immunity granted under the commerce clause of the Constitution, have conducted their operations almost as expeditiously as before. For instance, when Illinois adopted legislation outlawing the sale of worthless securities, the promoters moved a few miles over into Indiana and

continued to flood the state with their alluring literature, which holds out the promise of fabulous returns.

The result has been that most of the remaining states have found it absolutely necessary to enact similar laws to protect their citizens. Massachusetts, Rhode Island, New Mexico and other states have in recent years passed splendid laws of this kind. Since the Federal Blue Sky Bill passed the House of Representatives at the last session, Pennsylvania and Washington have enacted strong fraudulent securities laws. Missouri, Michigan, Wisconsin and other states have revised and greatly improved their laws, and there is reason to believe that it will be but a short time until the remaining four states will find it necessary to protect their citizens from these evils.

Regular Gangs Prey on Small Investors

IT is hard to conceive just how artful and ingenious the promoters of the get-rich-quick schemes are. Those who have been charged with the administration of the state blue-sky laws have found that there are regular gangs who prey upon the public by the sale of fraudulent and worthless securities. There are thousands of these professional crooks, many of whom have court records and who are experts in the organization and exploitation of all manner of get-rich-quick concerns. They use expert salesmen, work out all manner of plausible and attractive schemes which promise fabulous returns on invested capital, and rob the people of their savings by methods which to the man experienced in business seem unbelievable. Their victims are usually men and women of small means and little business experience and who have no standards by which to judge the value of a security.

If an oil well is brought in in some distant part of the country, or a new mine is developed in some out-of-the-way place, these pirates of promotion flock to the scene and overnight organize their get-rich-quick corporations and soon flood the mails with lurid literature promising fabulous returns.

These fly-by-night concerns are generally unable to qualify their offerings under the securities laws of most of the states. So their agents can not go into such states and sell their securities within the jurisdiction of the state authorities. But shrewd promoters have learned how to evade the state securities laws. They boldly take advantage of the immunities of interstate commerce. Having organized their companies with imaginary assets, they print great quantities of circulars, prospectuses, and pamphlets, giving glowing and lurid descriptions of their properties and prospects of fabulous returns, and flood the states with such literature through the United States mails and other agencies of interstate commerce. These promoters have mailing lists in every state and often in every county, and, fearing prosecution if their agents enter the states where their securities cannot be qualified, they carry on the greater part of their fraudulent promotions through the use of the mails and other agencies of interstate commerce.

The states are powerless to prevent this and they are appealing to the Congress to close the gap through which the dishonest promoters are pouring their worthless wares across the state lines and literally robbing their people.

Door to Investment Open

CONDITIONS connected with or growing out of the recent war have greatly facilitated the increasing evils connected with the promotion of fraudulent and unsubstantial securities. Before the war most men of moderate means were content to leave their savings with the banks. Lack of acquaintance with stocks and bonds made people suspicious of such investments. But after our entry into the war came the several succeeding national campaigns for the sale of Government bonds. Appeals for such investments were brought to the door of every home in the land. Under the inspiration of patriotic purpose many millions of American men and women who had never before owned or seen a bond or other security became the owners of Government bonds. The people became educated and accustomed to investing, owning, and dealing in such bonds. It was but an easy step across to investments and dealings in industrial stocks and bonds which promised much larger returns.

Moreover, the increasing taxes, war burdens, and cost of living urged and often coerced people to seek investments that promised larger returns. These conditions have in recent years furnished a fertile field for the pirates of promotion, who have taken advantage of every opportunity and, through the mails and other avenues of interstate commerce, flooded the homes of the people with their lurid literature offering securities that promised and even guaranteed fabulous returns.

The commerce clause of the Constitution is one of the most vital and important provisions in it. Its purpose was, of course, to promote the public welfare; but it is now being used to despoil the people of their savings to the amount of hundreds of millions of dollars each year. The purpose of the pending blue-sky bill is to remedy this condition. The law would simply offer to the different states the cooperation of the Federal Government in the prevention of a national evil.

The Two Vital Features

THERE are two vital sections of the bill. One which prohibits the sending from one state to another state of any security for sale contrary to the law of the state into which it is sent. The other provision prohibits the sending from one state to another state of any letter, message, circular or pamphlet offering or advertising for sale any security contrary to the law of the state into which it is sent.

By far the greater part of the securities that are sold in interstate commerce are perfectly sound and legitimate. There should be no burden or obstructions placed on such transactions by legislation.

The provisions of the pending bill have been carefully prepared with a view to preventing as far as possible interstate transactions in worthless and fraudulent securities, and interfering as little as pos-

sible with interstate transactions in legitimate securities. To accomplish this balance between what ought and what ought not to be done, men experienced in banking and business and in the administration of securities laws have been consulted and have contributed their very best thought. The pending bill, it is believed will reasonably accomplish that purpose.

Ten Exempt Classes

IN line with the policy of not obstructing the free exchange and sale of sound and legitimate securities, one section of the bill exempts from its provisions ten different classes of securities.

Those exempted are:

1. Securities issued or guaranteed by the United States or the government of any state or political subdivision thereof.

2. Securities issued by foreign governments, maintaining diplomatic relations with this country.

3. Securities issued by national banks or Federal land banks, joint-stock land banks, national farm loan associations, the War Finance Corporation or any other federally created corporation and acting as an instrumentality of the Government.

4. Securities issued or guaranteed by railroads or other public-service utilities and equipment trust certificates.

5. Securities issued by corporations, organized exclusively for educational, benevolent, fraternal, charitable or reformatory purposes and not for pecuniary benefit.

6. Securities issued, outstanding, distributed and fully listed upon organized stock exchanges whose qualifications bring them within the class of exchanges definitely defined in the statute.

7. Securities issued by State banks, trust companies, or savings institutions incorporated under the laws of the different states and subject to the examination, supervision and control of the states.

8. All notes or bonds, secured by first-mortgage liens on real estate, situated in the United States and in any of its territories and the Dominion of Canada. These securities naturally divide themselves into four different classes and each of these classes are under certain conditions exempted from the prohibitions of the bill.

First, any bonds or notes secured by a first mortgage on real estate when the entire mortgage, together with all the notes or bonds secured thereby, is sold or offered for sale to a single purchaser or at a single sale.

Second, any bonds or notes secured by a mortgage when the mortgage is a first lien upon agricultural lands and when the aggregate face value of the bonds or notes secured thereby does not exceed 75 per cent of the then fair market value of the lands mortgaged plus 60 per cent of the insured value of any improvements thereon.

Third, any bonds or notes secured by a first mortgage on city or village real estate or leasehold when their aggregate face value does not exceed 75 per cent of the fair cash value of the mortgaged real estate or leasehold, including any improvements thereon, and when the mortgaged property is used principally to produce through rental a net annual income, after

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Equal Opportunity in Cities

Comptroller Dawes in Discussing the Effect of the McFadden National Bank Bill Says the Federal Reserve System is Vitrally Concerned in the Question Whether or Not National Banks Are to be Permitted to Meet Their Competitors in a Fair Field.

HENRY M. DAWES, Comptroller of the Currency, in a letter to Congressman McFadden discusses the effect of the proposed national bank bill (H. R. 6855) if enacted into law, and the effect also if the bill fails of enactment. "The time has come," he declares in one part of his letter, "when the National banks cannot carry on much longer against the destructive competition of institutions which are fostered and protected by the very Federal Reserve system of which the National bank is the foundation.

"Although my interest is primarily with the National banks," writes Mr. Dawes, "I cannot look at the present time on any movement for amelioration of their position from the narrow standpoint of their relief alone. The situation has developed to such a point that I believe that the Federal Reserve system itself and the banking institutions of the United States are vitally concerned in the question as to whether or not the National banks are to be permitted to meet their competitors in a fair field, with no favors shown. The Federal Reserve system, to the extent of 83 per cent of its membership and 63 per cent of its resources, is a national banking system. Its only permanent and compulsory membership is that of the National banks. Their extinction would ultimately mean the end of the Federal Reserve system, and to the extent that the state banks are interested in the Federal Reserve system they are interested in the National Banking system.

"The National Bank Act was enacted in 1863, has been frequently amended and radically revised as a result of the Federal Reserve Act. The result has inevitably been inconsistency and confusion as to its intent and interpretation. It was originally intended to cover a rigid commercial banking operation. The terms of the Federal Reserve Act have extended the activities of the banks so that they are doing both a savings bank and a trust company business, but they are doing so under a crudely modified commercial banking act.

No Departure

"YOUR bill is to my mind no departure from the previously expressed intention of Congress as to the kind of banking that it was intended that the National banks should carry on, but it will have the effect of enabling them to function legally and efficiently in a way consistent with the real spirit of the National Bank Act and the Federal Reserve Law. With one exception I think there is nothing which could properly be characterized as in the slightest degree a radical change that would be brought about by your bill. I am convinced, however, that the cumulative effect of all of the suggested

changes will have a radical influence in emancipating the National banks from the handicaps under which they have been operating, and that the net result will be that the system will increase in size and strength in a way fully commensurate with the growth of the country and the requirements of the Federal Reserve system.

"Much thought and much study has been given as to how to secure an even and complete saturation of the benefits of the Federal Reserve banks in remote and agricultural districts. Inducements have been made and are being considered to secure the admission to the system of small state banks for this purpose. Without in any way questioning the wisdom and the desirability of such efforts, I should like very much to emphasize the fact that it is almost entirely through the small National banks that this saturation of influence to the more remote communities is now being made. The National banks furnish the last capillary in the circulatory system of the Federal Reserve banks, as well as the great arteries. If, through the encroachment of branch banks, prohibition of obviously necessary activities, the constant irritation and restriction by archaic and obscure laws, the National banks continue to be harassed and impeded in their growth, it will be a national calamity.

Branch Banking

"I SHOULD like to express to you my conception as to the operation of the provisions of your bill as applied to branch banking.

"Branch banking carries the principle of centralization into banking. It means absentee control over local finance and is in its essence monopolistic. It is utterly un-American. The bankers of the United States do not want it, and the people will not have it. Your proposal to stop its further extension within the Federal Reserve system will, in my opinion, remove the danger of its development to menacing proportions.

"The great system of unit banks which forms the National system has been the bulwark against monopoly and branch banking, but the time has come when the National banks cannot carry on much longer against the destructive competition of institutions which are fostered and protected by the very Federal Reserve system of which the National bank is the foundation. You do not propose to injure these competitive institutions, but you withdraw the facilities of the Federal Reserve system where they are being used for the promotion of a branch banking policy. The operation of your bill would put an end to the further absorption of outlying country banks into branch systems, and it would at the same time save the National

system by giving it equality of opportunity within city limits for the purpose of giving its customers such facilities as they are entitled to under their state law. It seems to me that your bill very clearly recognizes the principle that banking within the limits of a single municipality is distinctly a local issue, and that the people of a state have a right to determine what facilities they desire in the way of convenient banking, and they would certainly have a right to object to the introduction of a practice offensive to them in a strictly local matter.

The provision equalizing the rights of state and National banks within city limits is an issue rather of local self-government as opposed to Federal interference, than it is a branch banking issue. The branch banking becomes state-wide; it assumes characteristics not only different from, but antagonistic to, unit banking. Unit banking is community banking and implies service of residents to residents, and the natural and obvious territory of such a unit is the municipality. Service within a municipality should be determined by local desires and local necessities and should express itself in the laws of the local authorities.

Federal System Should Regulate

"A NATIONAL instrumentality, such as the Federal Reserve system, should obviously regulate the activities of its members in such a way as to permit conformity to local customs where such customs do not run counter to the general principles and the well-being of its own and its members' operation. This is precisely what your bill would accomplish. It requires the operation of both state and National banks on the same basis in each municipality. It permits the local authorities to determine that basis, and it prevents the further extension of the principle of branch banking by banks which are members of the Federal Reserve system beyond municipal limits. It is a principle of local self-government with National coordination.

"So far as its state members are concerned, the Federal Reserve system is a voluntary association. It would be absurd, therefore, to contend that their rights to operate in conformity to state laws are destroyed by the rules and regulations of a voluntary organization to which they belong. The limit upon their operations within the system is the condition of membership, and if they do not care to conform to these regulations, they may withdraw at any time from the system. This is not so with the National banks. It is my opinion that if the Federal Reserve system continues to lend itself to the extension of state-wide branch banking, in certain

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The National Banks at the Cross-Roads

By CHARLES W. COLLINS
Deputy Comptroller of the Currency

Restricted in their Operations by the Provisions of the Existing National Bank Law on the One Side and the Competition of State Banks Doing Business Under a More Liberal Law on the Other. Some Concrete Examples of a Change Which is Taking Place.

THE introduction of the McFadden bill on Feb. 11 (H. R. 6855) has for the first time in many years focused public attention upon the needs of the national banking systems. Its provisions, making, as they do, so many vital amendments to the National Bank Act, at once give the impression that this is no ordinary bill, but is a measure designed to meet fundamental and urgent requirements in our banking structure. The pending of this measure before Congress offers a unique occasion to examine the conditions under which the national banks are operating today.

The national banking system was brought into being during a period of great national stress. It was designed primarily to create a market for Government bonds and at the same time to establish a system of uniform currency in the form of national banks notes. It was, however, intended also to establish a new and permanent system of banking. The logical outgrowth of the National Bank Act of 1864 was to set up a system of credit machinery under the immediate supervision of the National Government. The bond and currency features of the national banking system have long ceased to be of any consequence. It appears now a curious anomaly that the official charged with the duty of governmental supervision over the operations of the national banks is called the Comptroller of the Currency.

At its very inception the national banking system acquired great prestige. Not only was the force of the Federal Government behind it, but its early membership was composed predominantly of once veteran state banks which had achieved strength and honor in their respective communities. These voluntarily applied for national charters. Within less than three years after the approval of the National Bank Act practically all of the state banks had come into the system.

The Inauguration of the National System

THE bare mention of the names of a few of these historic state institutions is sufficient to indicate how propitious was the inauguration of the new system. From New York City—Bank of Commerce, Park Bank, Metropolitan Bank, Mechanics Bank, Hanover Bank, American Exchange Bank, Chemical Bank and City Bank. From Phila-

delphia—Girard Bank, Union Bank, Bank of North America, Commercial Bank of Pennsylvania, Corn Exchange Bank, Bank of Pennsylvania, Farmers and Mechanics Bank and Philadelphia Bank. From Boston—Merchants Bank, Hide and Leather Bank, Atlantic Bank, Tremont Bank, City Bank, New England Bank, Bank of Commerce, Exchange Bank and Shawmut Bank. These banks had already had long and distinguished careers in the development of the economic life of the republic. With such recruits the national banking system was a success from the start.

In that period of pioneer development of the country in the decades following the Civil War, the national banks were on the firing line, meeting all of the requirements for a banking service. That was a time of commercial banking under conditions comprehended by the National Bank Act. During this period the system became firmly established in all parts of the country. The local national bank became a symbol for sound banking. There grew up what might be called a national bank tradition, based upon the general feeling of confidence inspired by the supervision and moral support of the National Government and by the resultant conservatism of the bank's management. The word "national" in the title of a bank became a source of pride to the banker and to the community.

New Conditions Created

THE rapid economic development of the United States in the late nineteenth and early twentieth centuries created new conditions, which called for phases of banking service not contemplated by the National Bank Act. In the course of time the national banks began to feel that undue restraint was being put upon them by the Federal Government. Banks organized under state laws with authority to exercise trust powers and to lend money upon the security of real estate, while at the same time carrying on a commercial banking business, began to make serious inroads upon the established business of the national banks. When the Federal Reserve Act was passed, Congress made a few amendments to the National Bank Act, such as permitting national banks to exercise trust powers when not in contravention of state law, permitting national banks to lend money upon the security of real estate under very restricted

conditions, and permitting banks in small towns to act as insurance agents and real estate brokers. These amendments, however, were not sufficiently broad to give adequate protection to the national banks.

Nationals the Basic Element

WHEN the Federal Reserve system was established to bring about a coordination of the system of national credit, the national banks were made the permanent and basic element. Every national bank was compelled to become a member without power to withdraw, without the sacrifice of its national charter. But the important fact must be noted that the Federal Reserve Act, as amended, permits state banks, upon their own volition, to become members of the system while at the same time retaining the charter powers conferred upon them by their respective states. The further fact must be noted that these state member banks may at any time and for any reason whatsoever voluntarily withdraw from the system. At the present time, out of a total membership of about 9900 banks in the Federal Reserve system, about 1600 are state banks. These, however, are large state banks having total assets of about \$12,000,000,000, as compared with the total assets of the 8300 national banks of about \$22,000,000,000.

One of the unexpected effects of the operation of the Federal Reserve Act has been to enable the state banks to gain further support and protection in their competition with national banks by securing the benefits of the Federal Reserve system. The national banks being compulsory members of the system have no choice but to endure the conditions which this entails. This is not a matter of academic discussion, but constitutes a practical condition fast becoming intolerable to the national banks. This can be demonstrated by concrete illustrations too numerous to mention. It needs no prophet to predict the ultimate fate of the national banking system, and as a necessary consequence, of the permanence of the Federal Reserve system, if this condition of affairs is permitted to develop according to its present tendency. This notwithstanding the fact that there is no inherent weakness in the national system. It is still possessed with its original strength. It needs only to be permitted to meet the natural conditions of growth.

When Nationals Fell Behind

WHEN the national banks of the country began to fall behind in national progress, due to the failure to obtain the necessary enlargement of their powers, the new demands for a wider banking service were met by state institutions. The state banks became the pioneers. There grew up a tremendous development of business involving the creation and administration of trusts, both individual and corporate. Before 1913 the state banks alone could participate in this business, and as a result there came into existence in all parts of the country trust companies having also commercial banking powers. These trust companies became not only highly profitable, but began to appear as a logical adjunct to banking operations. Customers of the commercial department brought business to the trust department and vice versa.

Another development in banking in which the national banks could not participate because it was not covered by the National Bank Act was lending money upon the security of real estate. The insistent demand for credit based upon the security of real property was met by the state banks. This was associated with the development of savings accounts by state banks, a form of banking which also was discouraged in the national banking system. The concession which the Federal Reserve Act made to this class of business has not been sufficient to permit the national banks to compete with state institutions because the time limitation to one year upon first mortgages on city property has been too restrictive.

Sale of Bond

ANOTHER form of banking service rendered by state banks and trust companies, but which was not foreseen by the National Bank Act, was buying and selling investment securities. This business grew out of modern methods of financing corporate enterprises and has been a source of additional strength to the state institutions.

These new conditions were met, so far as the state banks were concerned, by the enactment of new state banking laws. Many of these laws were modeled upon the National Bank Act, but have been improved by the experience derived from modern conditions. No one can read the banking codes of New York, Michigan, Ohio and California without feeling the force of this fact.

Another phase of banking service, perhaps more important at the present moment than any of those enumerated above, which has grown up in recent times, is that of branch banking. About one-half of the states now have laws which permit state banks to establish branches either on a state-wide basis or within the city limits of the parent bank. The recent decision of the Supreme Court in the St. Louis case held that a national bank had no power under the National Bank Act to establish a branch bank. While this has been the view of the office of the Comptroller of the Currency for many years, the Comptroller within recent months, acting under the authority of an opinion of the Attorney General, upon the theory of incidental corporate powers, has permitted national banks in localities

where they face competition from state banks in branch banking, to operate "additional offices" or "tellers' windows" outside of the banking house within the city limits in which the bank is located. No business is conducted at these tellers' windows other than the receipt of deposits, cashing checks or other such ministerial business not requiring the exercise of discretion. The corporate power of a national bank to operate one of these tellers' windows was not involved in the issue in the St. Louis case and was, therefore, not directly passed upon by the Court. In a footnote, however, to the opinion the Court, by way of *obiter dicta*, appeared to express some doubt as to the legality of this form of banking service by a national bank.

Concrete Examples

A BANK, like any other business corporation which depends for its existence upon earning a definite commercial profit from its investments, which for any cause is so handicapped that it cannot meet its competitors upon an equal basis, must necessarily sooner or later go out of business. Such is the situation of many of the national banks, both in the large cities and in the outlying communities. Two concrete examples will suffice to illustrate this situation. The writer has in mind a town which a number of years ago had four national banks and no state banks or trust companies. Today there are in that town two national banks and fifteen trust companies, with the two national banks struggling for existence. The primary basis for the profit which these trust companies are making is their corporate power to lend money without limit of time or proportionate value upon city property secured by first mortgage. A customer who has for years been encouraged by the national bank in the development of his business would have progressed far enough to put his capital into a building to avoid rent and more permanently to establish himself. The customer by doing this theoretically becomes a safer and more profitable customer to the national bank. But what is the result? The customer, having invested his available capital in business real estate, goes to his national bank to borrow funds to finance his business operations. He has no security to offer except his real estate. The national bank can only give him such terms as are permitted by the National Bank Act, which are a mortgage for one year and a limitation to 50 per cent of the value of the property. Across the street is a trust company which can lend him any amount it thinks safe on the security of the real estate and for such time as may be agreed upon. The customer of the national bank naturally goes to the trust company for the loan, opens an account there and eventually becomes a regular customer of the trust company. The margin of difference in corporate power between the two banks is sufficient to encourage the development of the one and to cause the retrogression of the other. In that town the best security is a first mortgage on city property, and when such loans are made they usually carry with them the commercial business of the borrower. If the national bank does not entirely lose the customer it is left to finance him upon security of less value than a first mortgage.

The other illustration is that of branch banking. There is not the least doubt that in cities where state banks may engage in branch banking, thereby extending its service of receiving deposits, cashing checks and making loans, in the residential districts and in uptown and outlying business sections, that a national bank in such a city, attempting to carry on the same kind of banking business as the state bank, but not being allowed to have branches, must suffer a serious loss in deposits. A national bank, not having such branch banking powers, cannot possibly endure this severe competition. A clear and exhaustive analysis of this danger to the national banks and to the Federal Reserve system is made by the Comptroller of the Currency in his last report to Congress.

Giving Up of Charters

IN the face of the growing power of the state banks and the accumulative effect of various unreasonable legal restrictions, there has developed a tendency on the part of the national banks to give up their charters and enter the state systems, or in the case of the organization of new banking enterprises, to take out state rather than national charters. The growth of state banks in our large cities is more rapid than that of the national banks, both in members and proportionate resources. In 1910 there were eight national banks in Cincinnati, seven in Cleveland, four in Detroit, five in New Orleans, ten in San Francisco and nine in Los Angeles. Notwithstanding the most marvelous development of the country within the past fifteen years and the consequent need for increased and more efficient banking service in cities like these, where the population was steadily increasing and new business developing, there are now seven national banks in Cincinnati, three in Cleveland, three in Detroit, one in New Orleans, seven in San Francisco and eight in Los Angeles.

In each of the above cities the state banks now far outnumber the national and are engaged in branch banking. The natural result is that the national system has not been able to hold its own, the total number of national banks at the close of the fourteen year period being less in the aggregate than at the beginning. The prohibition against the establishment of branches by national banks has not prevented branch banking in these cities. It has killed the national banks.

In 1870 there were 325 state banks and 1731 national. In 1884, twenty years after the approval of the National Bank Act, there were 817 state banks (exclusive of savings banks) and 35 trust companies, with aggregate resources of \$760,000,000, and 2664 national banks with aggregate resources of \$2,300,000,000. Twenty years later, 1904, there were 6923 state banks (exclusive of savings banks) and 585 trust companies, with combined resources of \$5,240,000,000, while there were 5331 national banks, with aggregate resources of \$6,975,000,000. The next twenty-year period brings us to the present day. There are now about 18,000 state banks (exclusive of savings banks) and 1550 trust companies, with aggregate resources of about \$23,700,000,000, while there are 8240 national banks with aggregate resources of \$21,700,000,000.

The increase in aggregate resources last year of state banks and trust companies was \$2,064,000,000, as against an aggregate increase for the national banks of only \$787,000,000. Forty years ago the national banks had 75 per cent of the banking power of the United States, whereas today they have only about 48 per cent.

No Discretion

THE Comptroller of the Currency, being in touch with all of the 8300 national banks, alone feels the full force of the state of mind of the national bankers. It is he who must daily enforce ancient laws and rulings which are properly applicable only to a bygone period of our financial history. The administration of his office is not without many examples of rulings made by him to stretch the old terms of the National Bank Act to meet the conditions of our modern industrial life. There are, however, limits to which rulings of this character can go, and in many cases the Comptroller has no discretion but to enforce a legal provision which he knows will prevent a national bank from participating in a transaction which inherently is sound and desirable. From time to time recommendations have been made to Congress by the Comptrollers for legislation to lift the handicaps from the national banks.

Is it not a startling fact that since Jan. 1, 1918, 173 national banks with capital of over \$100,000 gave up their national and took out state charters and carried with them total assets of nearly \$2,000,000,000, being about 10 per cent of the total assets of the entire national banking system? These included some of the oldest and strongest banks in the national system. In fact, some of them came into the national system in 1864 and 1865. During the past six years, 47 national banks in California took out state charters, 24 in New York, 19 in Ohio and 15 in Pennsylvania. It might be noted here that in each of these states branch banking is carried on by the state banks. This, however, as we have seen, was not the sole cause for this defection from the national system.

Movement Has Gone Further Than Realized

WHY should any system of state banking be attractive enough to pull from the national system such great national banking institutions as the Wells Fargo of San Francisco, the Lowry National of Atlanta, the National Bank of Commerce of Kansas City, the Union National of Newark, the First National of Cleveland, the Liberty National of New York, the Irving National of New York and the Bank of North America of Philadelphia? The answer to this question would seem to be that neither the Government nor the national banks have fully comprehended the extent to which this movement has gone. It is hardly open to question that the national banking system is basically preeminently superior to every other banking system in the country. There was a time when it possessed every advantage. Perhaps its apparent neglect today is due to the fact that in the popular mind this tradition of the superiority of the national banks has been carried over by a sort of momentum into the present time.

Again it must also be borne in mind that the position of state banks has been greatly strengthened by the Federal Reserve system.

Weighing Advantages

IT seems that the national banking system is at the cross-roads. National bankers in many localities are frankly weighing the advantages and disadvantages of the national and state systems. Shall they continue to endure what seems to them unreasonable restrictions of the National Bank Act and fall behind in business efficiency, or shall they relinquish their national charters, and as state banks with wider powers become voluntary members of the Federal Reserve system? As long as the Federal Reserve system endures on its present basis state banks with wider banking powers than national banks can indeed strengthen their advantage by becoming members of that system. But how long could such a condition exist? If the national banking system is reduced to annihilation by the withdrawal of the national banks therefrom in favor of state systems, what sort of Federal Reserve system would there be left? The answer is apparent. There will be only a voluntary system and the Federal Reserve banks would have no certainty of existence. The displeasure of any great group of state member banks at any policy of the Federal Reserve Board might be sufficient reason to cause the withdrawal of such banks and the consequent destruction of the system. In other words, if the present tendency toward relinquishment of national charters were carried to its logical and ultimate conclusion upon the theory that the benefits of the Federal Reserve system were sufficient compensation for loss of national charter, the whole scheme would fall by its own weight. There could be no stable system of banking and no proper system of governmental coordination of national credit where the entire or even predominant membership of the Federal Reserve system could withdraw at will.

This, however, is not a question for theoretical argument. A practical condition faces the national banks which imperatively necessitates constructive legislative action by the Federal Government. The old National Bank Act of 1864 and the few amendments that have been made to it since that time need to be subjected to a searching scrutiny with a view to making it fit the banking conditions of our modern social and economic life. But it needs also to be remembered that the National Bank Act was one of the great constructive acts of Congress and in its basic principles is thoroughly sound. It does not need to be displaced or completely revised, but certain immediate adjustments are urgent.

Adjustments Proposed

THESE adjustments are proposed in the McFadden bill, now before the House Committee on Banking and Currency. This bill is designed to strengthen the position of the national banks by amending a number of the provisions of the National Bank Act. It clarifies certain obscure sections, which have been a source of constant irritation to the banks. It modernizes certain archaic features of the Act and liberalizes

certain vital provisions which have an important and direct bearing on banking operations.

The Comptroller of the Currency in his letter to Chairman McFadden of Feb. 27 has strongly endorsed the bill and urged its passage at this session of Congress. The bill, however, cannot be called a Comptroller's bill in the sense that it is designed to strengthen or extend the supervision of the Government over the national banks. On the contrary, every section of the bill relates to the operations of the national banks, the purpose being to remove restraints and obscurities in the present law which have made it difficult for national banks in many cases fully to meet the legitimate demands upon them.

The Main Provisions

THE main provisions of the bill may be briefly mentioned. One of the most important features relates to branch banking. The bill is an anti-branch banking measure. It stops branch banking outside of city limits by state banks in the Federal Reserve system. Within city limits, where state laws permit state banks to have branches, it gives this privilege to national banks. It takes the one and five-year limitation off of loans on real estate and increases the loaning limit on real estate to 50 per cent of time deposits. It permits a national bank to have a bond department for buying and selling investment securities, including bonds secured by real estate. It clarifies the provisions governing the loaning power of national banks. It legalizes the payment of stock dividends and the ownership of stock in safe deposit companies. It allows state banks to consolidate with national banks under national charters without previously converting into national banks. It grants to all national banks charters in perpetuity. Other provisions of the bill clarify the criminal provisions of the law for the protection of the national banks.

There is nothing in the bill antagonistic to state banks. It is simply an attempt to give the national banks some of the privileges which state banks already enjoy.

The reasons are overwhelming why this bill should be enacted at the present session of Congress. It should inspire enthusiasm in every national banker. It is their bill. The general reason why the national banking laws have lagged behind those of some of the states seems to be that the national banks have not clearly articulated their needs. Now that this bill has spoken for them, they need only to rally to its support to place upon the statute books a measure which will insure their future stability and progress.

The national banking system has had a career of which the nation may be justly proud. It needs no apology. Created and sponsored by the Government of the United States it needs only the watchful care of its creator. It is a Federal instrumentality, indissolubly connected with the coordination and control of national credit. It is, in the last analysis, the foundation of our system of banking. The enactment of this bill into law will constitute a recognition by the Federal Government of its obligation. It will have a far-reaching effect in restoring equilibrium to the national system.

Five Fundamentals in Trust Company Business

On What Should Charges Be Based? Auditing Practices. The Importance of Entries Which May be Questioned in Court Twenty Years After They Are Made. Items Not Adjusted with Precision. Premiums and Discounts on Trust Investments.

NEW records for attendance were set at the Fifth Mid-Winter Conference of the trust companies of the United States, held in New York on Feb. 13 and 14, when more than 400 representatives of these institutions assembled for a discussion of the outstanding problems affecting their operations. While "Insurance Trusts" and the "Creation of New Business" were emphasized during the sessions, the topics reviewed at the first regional conference in San Francisco last November afforded the basis of the program. Lucius Teter, vice-president of the Trust Company Division of the American Bankers Association, presided over the three business sessions in which the conferees participated.

President Coolidge sent a message to the trust companies through John B. Larner of Washington, one of the Executive Committee. While expressing his regrets upon being unable to attend the banquet, where 1000 diners broke bread, the President wrote that he would be placed under obligation if his congratulations might be expressed to the trust companies on "the great service they have done to American business and finance, especially in the inculcation of ideals of thrift and careful business management." Secretary of the Treasury Andrew W. Mellon sent his greetings and declared that the "time has come to revise the taxes on a peacetime basis," adding that "if sound system of taxation is adopted and the policy of economy in government is continued, I believe the country may look forward with confidence to increased prosperity, in which everyone will share." D. R. Crissinger, governor of the Federal Reserve Board, telegraphed to Evans Woollen, president of the Trust Company Division, who presided as toastmaster, assuring him of his "great interest and appreciation" for the invitation to attend the conference.

How the Twain Met

THE East and West met—on the question of business ethics and approved principles of trust company operation. The conference developed that there was a striking similarity in the views held by the representatives of the banks, regardless of whether their location was on the Pacific or Atlantic seaboard or in the interior states. While speaker after speaker sounded the note that the trust company business was still in its infancy, there was voluminous testimony that the banks were making strides in their forward progress.

At the outset of the conference, the chairman announced that the early part of the program would be devoted to a discussion of some of the questions which were vital at the San Francisco meeting. Briefly summarized by designated leaders, five major questions—Policies to Be Pursued in Acceptance of New Business, Fundamentals of Correct Trust Charges, Investing Trust Funds, Auditing Practices in Connection with Trusts, and Cooperation Between Trust Companies—were reviewed. The most important phases of the insurance trust were discussed in some detail by the conferees, while the means by which the trust companies may acquaint the general public of their services and activities were dwelt upon during the closing session. An open forum was held during the second day, so that the convention might consider more fully the questions which had aroused the greatest interest.

Acceptance of Business

DISCUSSING "Policies to Be Pursued in the Acceptance of New Trust Business," William H. Stackel, trust officer of the Security Trust Company, Rochester, N. Y., reviewed the fundamentals laid down at the western regional conference with respect to corporate trusts and commented upon the large percentage of personal trusts which fiduciary institutions find so difficult to handle. Reciting a few cases where trust companies are required to straighten out family snarls, adjust inheritance taxes where gifts in anticipation of death are made to avoid them and situations arising out of the dissatisfaction of beneficiaries over inflexible provisions of wills, Mr. Stackel said that the trust companies should seek every opportunity to assist testators in having "reasonable and workable plans written into their wills." "We cannot give legal advice or draw wills, but we can and should, as far as possible, work in conjunction with both lawyer and client," he continued. "Our service to personal trusts should begin at that point."

"The most sacred trust we have, and the one which in the long run will bring us the largest dividends, is that trust which we call public confidence," he said in conclusion. "Right here we have one of the strongest arguments for the corporate fiduciary in that an intelligent self-interest demands that we render an unselfish service."

Only by determining the cost of services rendered by trust companies is it possible to arrive at the "Fundamentals of Correct

Trust Charges," Robert W. Harden, vice-president, Westfield Trust Company, Westfield, N. J., told the conference.

"It appears to me that cost is the fundamental which must be taken into consideration in the determining of proper charges. Cost differs in various localities. I don't think it would be possible to say that the same cost should prevail in the South as in the East, and probably in the West the cost would be different from either of the other locations. The size of the institution has a bearing upon the matter. The type of organization also has a bearing. The policy of the institution also must be taken into consideration. Every institution varies in some small respect from other institutions, and some trust companies are satisfied with a smaller percentage of profit than others. So it seems to me that each institution should determine its own cost. Then the charge to the client should be based on cost plus a reasonable profit. Percentage of profit will have to be settled by each institution, I feel, based largely on its own costs, its own methods, its own policies and, of course, being largely guided by the schedule of rates suggested by the Trust Company Division."

The question of whether trust companies should make extra charge for the preparation of income tax returns and safe deposit box rent for the storage of securities of estates was raised by Sherman Peer, treasurer, Ithaca Trust Company, Ithaca, N. Y. The practice in several states was given by several conferees, and it appeared to be the consensus of opinion that the services should be supplied without extra charge.

Mortgage Shares Endorsed

MORTGAGE shares present one of the most satisfactory outlets for the investment of small funds, Carl W. Fenninger, trust officer of the Provident Trust Company, Philadelphia, told the conference in presenting "Investing Trust Funds." While theoretically the small trust is entitled to the same safety and the same diversification as the larger fund, this is more difficult to work out in practice, he said. "Only sound, especially well-secured mortgages should be selected for this purpose and the ownership of each participation disclosed beyond question," Mr. Fenninger stated. He warned of the danger of debenture participation and questioned the ethics of trust companies purchasing securities from their own bond departments, unless the trustor in creating the trust recognizes this right.



In the Trust Company Forum, where questions were raised and discussed.

Presenting "Cooperation Between Trust Companies," John C. Mechem, vice-president of the First Trust & Savings Bank of Chicago, stated that where there was cooperation, the results had been better financial returns to the companies and better service to the public. Reviewing the efforts of the companies in California, Mr. Mechem expressed the opinion that "there is business enough and more than enough for all of us." "If all of the people in our respective communities who could profitably use our service should, in fact, avail themselves of the privilege, why we would have to send in a riot call. The guiding principle ever present in our minds and underlying the entire conduct of our business should be cooperation and not cut-throat competition. Let us have cooperation, frank and cordial, in fees, in forms, in methods, in practice, in all of the elements of our business, and let us have competition only in our efforts to best serve the public whose servants we are."

Fairer Fees

THE fundamental unit in cooperation should be the local association, Mr. Mechem said, adding where these had been started they had proved of "inestimable benefit."

"First of all this question of fees which is uppermost in our minds: Fairer fees have, I think, in every case followed the establishment of these associations, fairer not only to the trust companies themselves because they gave them more adequate compensation, but fairer also to the public," Mr. Mechem said, describing their strong points.

"As a matter of fact, in the long run it is no benefit to the public, is it, to get the

kind of service that they get by going out and getting various people that are going to do that service bidding against each other until they finally get down to a price where the successful recipient of the business does it at a loss? That is not good for the public.

"Furthermore, the moral tone of the entire trust company business has been very much improved in these cities where they have come to a standard fee so that the trust companies are not any longer in a price-cutting business.

"The experience has been, too, not only that the general schedule of fees has been increased when it was scientifically tackled, and it was actually found out what the trust companies were doing for their dollar, but it has also been true that many services have been found for which the trust companies in the past were not making any charge.

"As far as relations with the bar are concerned, can we not show the bar with these associations very much better than we are showing them at present that, as a matter of fact, the trust companies, by advertising the attorney's business for him, have created much more business for the lawyer than they have ever taken away from him? I do not believe that can be too often or too forcibly impressed upon the bar."

Auditing Practice

ONE of the features of the conference was the discussion of "Auditing Practice in Connection with Trusts," as presented by Frederick Vierling, vice-president, Mississippi Valley Trust Company, St. Louis.

"Any proper system of bookkeeping for a trust department would, of course, top it

off with a controlling account," Mr. Vierling said. "You ought to be able to make monthly, or more often, a trial balance of your trust department—what you have and what you owe. Unless trust departments are run on that broad basis, the accounting system is not perfect.

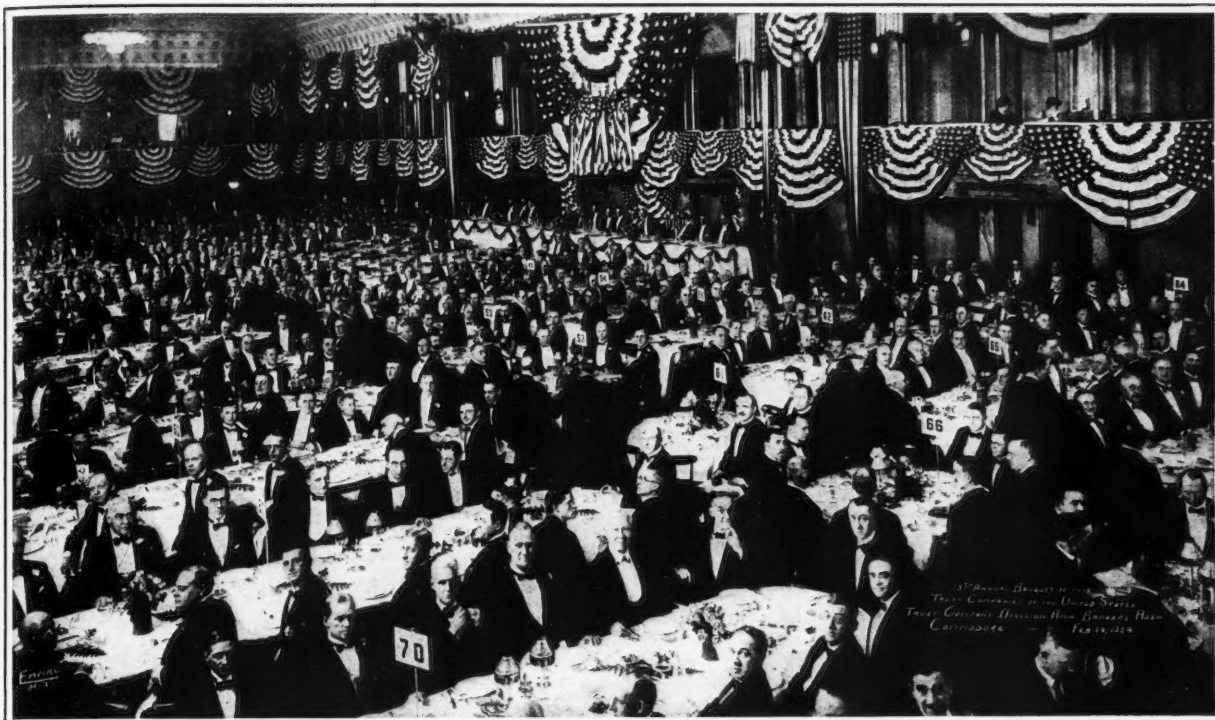
"We have monthly trial balances, and whenever the bank examiners come (which is four times a year) we have special trial balances, and all our assets must be accounted for at that time. Each estate, of course, has its own assets and its own liabilities. However, that does not prevent you from having a controlling account. That, I think, must be item No. 1 in a properly organized trust department.

"Now in keeping trust accounts you may not be perfunctory. Remember that you may be called to account twenty years hence about items that appear in your books today that today are plain. Today you know the facts. Twenty years hence your memory will not serve you on a great many items. Perhaps you will not be on the scene to explain them and your successor in office will have to do the explaining in court.

Entries Must Be Clear

"UNLESS your books are full enough: in detail to actually explain to your successor in office the fact that is intended to be included in the entry, your entry is not right.

"I know that in a commercial way you do not want to keep books on that basis, but in your trust department work you dare not look, if you look forward, on these things as you would in commerce—just a brief cash entry without explaining what



One thousand diners gathered in one room to hear the postprandial addresses.

it is, perhaps not even giving the source from which it came.

"In keeping trust accounts, a good many of us keep them on the loose leaf plan. As I look at it, it is a dangerous practice. Loose leaves may be substituted; may be lost. Loose leaves in court may have little or no value. If you will take into account the fact that the original entry is the entry that has value in court, you will want your original entry in a book that cannot be lost and that cannot be mutilated without showing for itself.

"Now it is not the items that go in your ledger that count in court. Your ledger which to you seems to be the primary book in court will be a secondary book. Your book of original entry, your cash book, as it is generally called, would be the one that would have value in court as the book of original entry.

"So have in mind the permanency that is required in trust accounting and the evidentiary value that you want your books to have, should you get to court.

"In auditing trusts, you would naturally go back to the inventory of each trust. That inventory would be made up by an experienced officer, generally in the presence of the trustor, if he creates a trust, or members of the family if he is a decedent, so that all the items of assets are carefully listed.

"Your laws require inventories to be made with great formality, and they must be so made in order to have future value in connection with the settlements that you are going to have to make in or out of court. In court it is a court matter; out of court with the beneficiaries.

"When you file your inventory in court, if it is that kind of estate, then you ought

to be sure that the opening entries on your books correspond with the schedule of property in case of a trust.

"As soon as you fall heir, because you are the executor in a will to the assets belonging to a decedent, you ought first and immediately to find out what value the different items have. That is imperative. You cannot administer an estate carefully and properly without immediately getting at the value of the assets that are concerned. It ought to be your first endeavor in connection with an estate to dig into all of that.

"Of course, if their issues are well known in a public way, that part of it is easy, but seldom do you get an estate that is all invested in that form. You are bound to have to learn something of corporations or institutions that you have never heard of before. They are private in their nature; the securities are not listed; the corporation is not known perhaps in your own community, but it is up to you first and forthwith to ascertain what you have in value.

Investments Not Sanctioned By Law

"AS soon as you have learned what assets there are, you have to make a division. Some are legal investments, and some are non-legal investments. Those that are legal investments may be retained if they are in good standing. Those that are not legal—I do not mean by that to say that they are bad—but if they are non-legal, you have no right to retain them for the estate. It is necessary immediately and promptly that you dispose of those investments that the law does not sanction for the particular trust unless the testator or creator of the

trust gives express instruction to the contrary.

"In auditing trust accounts you cannot rely on entries such as, for instance, 'dividends received.' Dividends are declared regularly or irregularly in a particular case, but you cannot rely merely upon what your books might show. I have in mind that in this past month of January, in checking up dividends that ought to have come in to our trust accounts, two checks were missing. If we had not checked back to see whether or not the dividends we should have received had come in, we would not now know that two were missing. But by checking back through your auditing department, your auditing system, you will find out whether or not the dividends have come. In the two cases mentioned it only needed a letter to get duplicate checks and the matter was righted.

"However, unless your trust department auditing is done with that refinement, it is not first-class, it is not satisfactory.

"The same remarks would apply in connection with interest on bonds coming in regularly. You cut coupons and send them through. Do you check to see that you get the money after the coupons are sent in for collection? If you do not, your auditing system is faulty.

"Again with respect to rents: You may not rely on what your books show as rents received; to enter rent as it comes in is all right, but that must be followed up to see that the rents you ought to get have come in. Every now and then you will find by checking through your various estates that somebody has omitted sending in rent that you thought had been received.

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Enables Bankers to Participate in a More Personal Way

First General Regional Conference of the American Bankers Association, Held in Kansas City and Planned to Bring the Benefits of the Association Closer to the Bankers' Homes Was a Pronounced Success. Delegates from Ninety Towns and Cities.

SOMETHING of an experiment was conducted by the American Bankers Association at Kansas City, Mo., Feb. 21. It was the first general regional conference to bring the Association closer to the homes of its members, to enable them to participate more personally and more fully in its affairs. The success of the experiment is found in the fact that from ten o'clock in the morning until after ten at night, with only brief intermissions at noon and nightfall, some two hundred bankers from more than ninety towns and cities in the seven states comprised in whole or in part the Tenth Federal Reserve District, intently listened to and actively participated in detailed discussions of the work and purposes of the American Bankers Association in its outstanding activities that have to do with the public welfare.

The particular objects of the conference, as set forth in the announcement and invitation issued by President Walter W. Head, were to discuss the common problems of American bankers in respect to agriculture, to consider the necessity of creating better understanding among the general public in regard to banking and bankers, and to discuss the best methods by which these objectives might be attained.

The Call

THE call to participate in the meeting was sent to the officers of the Association and to an extensive list of bankers in Missouri, Wyoming, Nebraska, Colorado, Kansas, Oklahoma and New Mexico. Those invited from this territory were past presidents of the American Bankers Association, members of its Executive Council, state vice-presidents of the Association and of its four divisions, state representatives of the Clearing House Section, members of its commissions and committees, and officers and agricultural committee chairmen of the State Bankers Association in the states named.

The morning session was divided between two subjects. The first was introduced by J. H. Puelicher, Chairman of the Committee on Public Education, who spoke on "Public Education and the American Banker." Mr. Puelicher first told of the organization, twenty-one years ago, of the American Institute of Banking, of the services it has rendered to the profession of banking, and of its present extensive activities and plans for the future. He stressed particularly the importance of better education for banking personnel from the point of view of the public welfare in that it enabled banking

better to perform its functions and created higher ethical standards for the profession. He also told of the work of the Committee on Public Education, saying in part:

The Banker Must Regard Himself as Responsible

THAT the banker must regard himself in a great measure responsible for the economic well-being of his community and of his state, is becoming more and more evident. That he is meeting these requirements in a greater degree as he realizes their necessity, is to be commended. The work of the American Bankers Association in furthering an intelligent interest in the financial side of agricultural questions is an evidence of the banker's interest in the basic welfare of his community. The banker's willingness to address classes in the schools on elementary economics, treating the subject from the concrete experiences which he has had in handling the financial affairs of his community, is another commendable indication of the banker's realization of his responsibilities.

"Because sound economic principles have not been followed, America is suffering from an economic unbalance. The rewards to certain elements in American society have been relatively greater than those going to other elements. The fault may be within those who are not receiving the reward, or it may be the result of the presently existing economic unbalance. This economic unbalance will always exist and will always bring its disasters so long as the people of this country do not study basic conditions. All who are engaged in business should make a closer study of costs, of markets, of reasonable return. This means a familiarization with what today is a subject seriously studied by too few—the study of economics."

The keen interest taken by the assembled bankers in Mr. Puelicher's remarks was manifested by the numerous questions they called upon him to answer in regard to details of the educational activities of the Association.

The rest of the morning session was taken up by a discussion of the topic "The Banker and the Public" which was introduced by Charles Cason, a member of the Public Relations Commission of the Association. Mr. Cason first told of the AMERICAN BANKERS ASSOCIATIONS JOURNAL published under the supervision of the Commission and of its transformation from a typical association organ into an authoritative magazine of business, banking and

economics in order to expand its usefulness by serving as a medium for distributing sound information on these subjects, not only to the banking world but to the general public. As an illustration of the success of this purpose as recognized by others, he read a letter, one from many received, by a former editor of a great metropolitan newspaper, now connected with one of the country's biggest banks, who wrote: "You are publishing by all odds the most helpful magazine in the banking field. As I remember the old Journal, this seems to be an entirely new publication."

Distribution of Economic Truth

MR. CASON then told of the other main division of the work of the Public Relations Commission, that of the publicity office whose great aim, he said, was to increase the practical usefulness of the American Bankers Association to bankers, and also to increase the ability of the Association and of banking in general to render service to the nation. In this connection he laid particular emphasis on the service of informative and educational economic and banking articles which the Association through the Commission is supplying to country and town daily and weekly newspapers. These articles are aimed, he said, to impart sound information in regard to the basic economic principles of business, finance and banking. They serve as an effective means for wider distribution, particularly in rural communities, of information on such topics as the importance of sound money, the economic services rendered by banking and the truth about the capitalistic system, as an offset to the demagogic misrepresentations on these matters to which the public is subjected.

Mr. Cason told also how the Public Relations Commission, through this service, is cooperating with the Committee on Public Education in distributing through the printed word educational matter similar to that being presented by it through the spoken word in lecture courses on banking and allied subjects in the schools. He said that over 3800 publications, with a combined circulation of 24,500,000, throughout the country are using this service extensively. He explained that the plan was to have this material published particularly in communities where radical agitation and unsound economic propaganda are especially active.

"We feel that this service," Mr. Cason said, "working as it is fifty-two weeks a year, receiving the extensive acceptance that

(Continued on page 605)

Trust Department Advertising and Publicity

By L. L. D. STARK

Assistant Trust Officer, The Midland National Bank, Minneapolis

How to Compile a List of Prospects. Methods Employed in a Direct Mail Campaign. Auxiliary Helps. What Should Go into the Newspaper Advertisements to Command Attention. Cooperation and Confidence of the Wife. Relations with Lawyers.

TO consider the development of new business from every angle, take the position of a trust officer who has been charged with the responsibility of developing a newly-organized trust department in a national bank.

At the outset we must grant that a period of at least five years will be required to place the new department on a paying basis.

Obviously, the line of least resistance in the solicitation of trust business is the cultivation of customers already doing business with the bank. Present customers are easily approached and they are also easily handled when their business is procured.

The foundation for any successful trust campaign is a selected list of prospects. This list, mailing list, is used for the distribution of advertising matter to be sent directly to the prospect himself. In addition to this form of direct advertising, the bank may employ indirect supporting media such as daily newspapers, local publications, programs, billboards, statement enclosures, stuffers in the bank's outgoing mail, window displays, lobby display boards, letterhead advertising and other less important media.

The Mailing List

THE mailing list is the foundation of the campaign. The primary sources of names should be the bank's list of stockholders. It is to be recommended that all stockholders be placed on the list. Many will be unable themselves to contribute any trust business, but not infrequently they can be relied upon to influence other profitable business to the bank. In addition to the regular advertising material special letters should be sent to the stockholders from time to time. Every stockholder can be made a loyal worker for the trust department if he is properly approached.

A large proportion of the names for the mailing list may be taken from the list of the bank's commercial customers. Some banks make it a practice to include the names of all doctors, dentists and lawyers. Lawyers are included in order that they might be informed of the trust service and thus be in a position to influence business to the bank. The officers of corporations and firm members of means should also be included.

While the records of the savings department do not yield as much information concerning possible prospects as do the credit

files of the commercial department, they nevertheless are a field for prospects which should not be overlooked. The obvious way to select names is to pick out large individual accounts. Accounts of fraternal, charitable and other organizations should also be selected.

The safe deposit department contains much of the tangible wealth of the bank's customers. This department is a fruitful source of prospects. If the bank possesses a bond department, the trust officer may incorporate all prospects and customers of this department.

The foreign department deals with people who many times limit their transactions to this one department. Not infrequently it may be found that foreigners who possess large means are very secretive in their dealings and reluctant to give any indication of their financial worth. The manager of the foreign department may have knowledge of such persons and these should be included on the list.

Other Sources

IF it is thought desirable by the trust officer to compile an even larger list there are several outside sources which should be considered. The credit rating books of Dun and Bradstreet will be found to be a good source. Almost every community has some form of local credit rating book and this might be used for the purpose of suggesting names. Then there are such obvious sources as the city directory and local social registers.

The prospect's address should be that of his home as here he is free from the many details of his business. The literature ordinarily should be sent under a two cent stamp though in some instances a one cent stamp will accomplish the same result. Sometimes it is desirable to use the bank's regular envelope with the return card in the upper left hand corner and at other times it is more desirable not to reveal the name of the bank. The interval between mailings may, of course, be varied to suit conditions in any particular city, but the customary time is one month.

An introductory letter or booklet should be first sent to the list of prospects. The fact that the department is organized and operated under authority and supervision of the Federal Government is obviously a point

to be stressed. Other points that might well be brought out are the size of the bank, strength of its directorate and size of its clientele. This introductory letter may be followed by a series of booklets or letters. In our institution we sent a series of twelve booklets the first of which introduced the new service and those which followed discussed the several services the new department had to offer. There are a number of advertising companies which specialize on trust department advertising matter, and some of the campaigns which have been developed by them possess merit and are worthy of careful study. A return post card with each booklet so that the prospect might name a time and place for conference, helps. The booklet should be brief. If it is decided to employ a series of letters to introduce the new service rather than booklets, the following elements will be considered: First, should the letter be individually typewritten, multigraphed, mimeographed or automatically written. Second, should the letter be signed by the trust officer, or should his name be signed by a clerk, or should a facsimile signature be reproduced. Third, what should be the contents of the letter?

If the list is large, the cost to typewrite the letters individually would be prohibitive. Multigraphing is inexpensive and perhaps best suited for very large lists. The mimeographed process possesses more of the earmarks of an individually written letter, but it is not an ideal imitation of the personal letter. The most satisfactory process is the automatically written letter. If the signature of the trust officer is well known, the letters should be personally signed by him. If his signature is not generally known they may be signed by a clerk.

Contents of the Letter

THE letter should be brief; it should discuss but one subject. Generalities should be avoided. The prospect's attention should be arrested by stating some fact that possesses a large measure of news value. For example: If the letter were discussing the bank's willingness to compute the prospect's inheritance tax, a statement telling that the estate of William Rockefeller was reduced from eight millions to less than four millions largely because of state and federal inheritance taxes, the prospect would probably become interested enough in the letter

to read further. If the prospect is urged to visit the bank he should be urged to come to a specific place or see a specific person. One method to coax the prospect into action is one that has long been used by successful sales managers. This is to refer to something in the advertising that the prospect might receive by calling. This method may be adopted to trust development work by referring to a so-called master booklet in all literature and letters that are sent out. This booklet may be in the form of a questionnaire on wills and estates. It might be a working form on which the prospect may make notations to guide his attorney in drafting the will.

It is surprising how few people of means realize the possibility of their estate being taxed by states in which they have never set foot. This multiple taxation is just now becoming known to people who years ago should have followed its development. Frequently the trust department can analyze the holdings of a prospect and recommend exchanging of securities to reduce the number of states that might dip into his estate. After rendering such a service, it should be a simple matter to influence the man to name the bank as his executor and trustee. The subject of inheritance taxation might be made a basis for a campaign in itself.

Many prospects who have perfect confidence in the bank may consider it inadvisable to place the entire control of their estate in the hands of a third party, however large or competent that party might be. If it is known that the testator's wife might be made co-executor and co-trustee this barrier may be easily removed.

When the Prospect Comes

ASSUMING that the prospect has been induced to visit the bank. There are certain selling aids that we might consider. It is obviously unnecessary to discuss how the prospect should be handled by the trust officer as we assume that he is capable of meeting any situation that might arise. The average prospect while not interested in the legal phraseology of a document is nevertheless interested in its provisions—how the trust will operate. Have specimen multi-graphed or printed forms of agreements for living trusts, life insurance trusts, agencies, custodianships and wills in which trusts are created. The language should be as simple as possible without sacrifice of any legal requirements. A document that is brief and easily understood will help much in making the sale. Often the prospect will want to take the agreement home. If it is clearly drawn, his wife may assist in the sale or if it is clear she may hinder it through fear of some clause not readily understood by her. If the prospect leaves the bank without definitely deciding to use the service, urge him to next visit the bank with his wife or to permit one of the bank's representatives to visit his home to discuss the matter with him and his wife.

The most obvious form of indirect advertising is the daily newspaper. A small advertisement inserted regularly is more effective than a large one spasmodically displayed. The same factors that guide the advertiser in preparing letters for the mailing list should guide him in the preparation of newspaper copy. The advertisement

should be very brief. Every unnecessary word should be eliminated.

Attractive Typography

THE question of typography is one that is perhaps not sufficiently considered by banks. Many of them leave this matter entirely to the newspaper compositors. The result is that typefaces are indiscriminately used, and the advertisement presents an unattractive appearance. The bank's advertisement should above all suggest the atmosphere of quality. The advertisement should be set by printers who are experts. Select a standard typeface for use in all advertisements. Illustrations of high quality are desirable. A good border arrests attention and sets apart the bank advertisement from other advertisements that appear on the same page.

While the subjects that may be treated in newspaper advertising are many and varied there are some which are especially suitable because they possess a degree of news value. The average property-owner is vitally concerned with how his estate shall descend at his death. He has a general idea that his property will be divided between his wife and children but he does not know the proportions. There are many husbands who believe that the wife receives all. An advertisement that puts some such question as, "If you died tonight, could your wife live on the income from one-third of your estate?" is almost certain to arouse the interest of a desirable class of readers. Questions such as, "Will my aged mother share in my estate without a will?" may strike a responsive chord among those who have dependent parents. "Under what conditions will my brothers and sisters share in my estate?" is a question that might strike home to those who have had their share of family dissension.

"Stuffers" are effective when enclosed in the bank's general mail. The average letter is lighter than the limit allowed by law under two-cent postage, and the only expense to capitalize the wide distribution of the bank's general mail is the cost of printing. These efficient little messengers may be made simple and inexpensive. They may be enclosed with notices of demand interest, statements for safe deposit rental, collection notices, etc.

An inexpensive and indirect form of advertising is "letterhead advertising." It costs but little to lithograph an additional line or two on the bank's letterhead, and many times this modest little notice will attract the attention of someone who will be in a position to use the trust service. If the trust officer desires to use every available space for advertising the new department, he may use the back of the bank's envelopes.

Lobby sign advertising is also an indirect and inexpensive way of reaching the bank's customers, as well as people who frequent the bank but do not use its service. If the bank is fortunate enough to be situated so that one or several of its windows can be converted into a display window, an effective and profitable medium may be easily developed.

Relations With Lawyers

VERY important source of trust business is the business that is handled by the lawyers for their clients. Obviously it

is for the best interests of any trust institution to enlist the good will and cooperation of the legal fraternity. This can be accomplished in several ways. The first thing for the national bank to consider is its policy toward legal work. Shall it engage in practices which in the eyes of the lawyer amount to encroaching upon his domain? Just what acts might be considered against the lawyers' interests may be hard to define but one act which always arouses their antagonism is the practice of drawing wills. When our department was organized five years ago, we determined that we would not draw wills nor engage in any practice that might incur the enmity of the lawyers. We adopted the policy of urging prospects to consult their attorneys. In our advertisements we inserted clauses directing prospects to their attorneys. Shortly after trust powers had been granted to us we wrote a letter citing that section of the Federal Reserve Act under which we were acting and pointed out the advantage of a national bank as executor and trustee. Later we published reprints of a number of our newspaper advertisements wherein we made specific reference to the lawyer. Shortly after the appointment of Chief Justice Taft, we reproduced a picture of the Supreme Court, framed it, and presented one to each of the attorneys in the city. "Compliments of Trust Department, Midland National Bank," was placed on the picture, and where possible it was hung in a strategic place in the office by the bank's messenger. The gratitude of the lawyers is certainly sincere.

Our policy is invariably to retain the attorney who served as counsel for the testator, and where there is no special attorney and the estate is small we usually retain a young lawyer of promise to represent us at court and attend to routine details. It is a wise policy to cooperate with and be friendly to the attorneys. They are not only in a position to influence business but are also in a position to be helpful in quashing any threatened legislation which might tend to unfairly restrict the work of trust institutions in their proper sphere.

Fallacy of Price-Fixing

"PRICE-FIXING to be successful must be accompanied by regulation of production, thus artificially bringing supply and demand together, but that is impracticable on a large scale," George E. Roberts, vice-president of the National City Bank, declared in a recent address at Ohio State University. "Neither the Government nor the officials of a farmers' organization can say what activities any individual farmer can most profitably follow. They are not qualified to name the farmers who should turn from wheat to corn or other crops. That may depend upon the character of the farm, its location, the farmer's equipment and family help, his financial circumstances, etc. It is proper for the Government to gather information bearing upon probable crops and market conditions, but the individual farmer must use his individual judgment in directing his operations. And since the Government cannot regulate production, it is in no position to assume the responsibility for prices."

Organizing a Trust Department in a National Bank

By J. W. HUDSTON

Trust Officer, Denver National Bank, Denver, Colo.

Some of the Qualifications Desirable in a Trust Accountant. Protection Against the Possible Oversight of Legal and Other Matters Which Should Receive Attention at Definite Times. The Transfer Agent and the Collection of Federal Stamp Tax.

IN outlining the general organization of a Trust Department, its functions may be divided into administrative, legal and accounting, and its activities theoretically classified into—

Corporate trusts, for bond and note issues; individual trusts, for designated beneficiaries; transfer agent and registrar of stocks; miscellaneous, such as escrows, collections or payments against legal documents requiring executive supervision, etc. To administer and operate the department it is necessary to appoint a trust officer, who may be an official of the institution having general banking experience, or, as is frequently the case, an attorney-at-law together with such assistant trust officers and employees as the business may require.

Should the trust officer not be a lawyer, then it may be necessary to retain counsel, who will be available for routine legal work, and for consultation when required; but the lay trust officer should possess a sufficient knowledge of the fundamental principles of the common law and the statutes of his state bearing upon the work of his department to enable him to deal intelligently with such questions of procedure as arise in the daily routine of business. The same qualifications should obtain with regard to accounting and a knowledge of investment securities recognized by law.

Committee to Aid

TO aid the trust officer or his assistants in the re-investment or selection of such securities, it is highly desirable that there should be available a competent committee selected from the senior officers and directors of the bank whose recommendations or otherwise should be made a matter of record. The trust officer will also retain joint control of all securities. He will supervise the duties delegated to his assistants and endeavor to arrange for their equitable distribution. He is the representative of the department in the general organization of the bank and with the public, and should be able to inspire confidence in those seeking advice and guidance in the arrangement and management of their affairs.

A most important official of the department is the trust accountant, who should of necessity be technically trained in accounting, economics and commercial law, and qualified to organize the records and accounting systems of the department, be they

simple or complex. He should be also given such competent assistance as will leave him free to study and "set up" the various wills, agreements, mortgages and other legal instruments coming within the scope of his duties.

Accountants' Qualifications

IT may be useful to enumerate some of the many desirable qualifications of the trust accountant.

He must have a knowledge of the distinction between corpus and income charges and credits, which distinction becomes important as between life tenants and remaindermen.

He must understand the amortization of premiums.

He must know or obtain the various laws governing state inheritance and federal estate taxes, and be able to protect the estate against inaccurate assessments, prepare income tax returns, federal or state, for decedents and for estates.

It may be noted with advantage that the accountant should be careful to secure the audit by the Internal Revenue Department of the income tax return made by the executor for the decedent, and also of the federal estate tax before permitting the estate to be closed in order to release the bank from further responsibility therefor.

He should keep always in mind the final accounting to the Probate Court, and to the beneficiaries.

His accounting system should give such full details and records made in so clear a manner that, if necessary, they may be understood by future generations. In a word, they must be complete but not complex.

The trust department should be regularly audited by the bank's auditor or, better still, by a special trust department auditor, who may be an outside professional accountant, responsible only to the board of directors, providing the business of the department is large enough to warrant such an appointment and expenditure.

Trust accounting differs from ordinary commercial bank accounting because of the fact that the property delivered to the fiduciary does not become mingled with its general assets, but must be kept and administered apart from the assets of the bank and from those of other trusts. The fiduciary must so arrange its accounting records that it can trace particular item of property through the many changes which may take place in its form, and convince the inquiring beneficiary that he is receiving the proceeds of the original corpus of the trust estate. With this thought in mind we may proceed to the development of a general accounting system which will be suitable for a trust department of moderate size and which will be capable, nevertheless, of expansion as the

volume of the trust department business increases.

It is agreed generally by accountants that the most convenient and, in the final analysis, the most satisfactory method of accounting for securities is to record them on the books at their par or face value. In order that the books may reflect the inventory or cost price of the securities, it is necessary that adjunct or offset accounts be utilized to represent the difference between such cost, or inventory price, and the par value. In case of no-par stocks, it is customary to give them an arbitrary par value for accounting purposes. This method of accounting for securities has two principal advantages, namely: the facility with which the ledger record may be used to control subsidiary records of securities, which are most conveniently kept at par or face values, and the ease with which securities may be audited under such circumstances. Accounts receivable, real estate, jewelry and other assets are ordinarily carried on the books at their appraised or cost prices.

May I present in a very general way an outline of the accounting system in use in the institution with which I am connected, which has been built up and organized by my able associate and trust accountant, Howard E. Parks.

Our trust ledger is a loose leaf book arranged alphabetically according to the names of the trusts. At the expense of a certain necessary increase in the size of the ledger we have decided that the greater flexibility obtainable by the use of a separate page for each account carried for a particular trust makes such an arrangement preferable to the so-called "synoptic" or columnar ledger, in which all of the various accounts involved in a trust are carried on a single sheet, by the use of many columns, each bearing the caption of an account.

Accounts Carried

THE usual accounts carried are corpus (or principal) cash, investments (which include stocks, bonds and other securities), premium, discount, real estate, miscellaneous personal property and income. With the exception of the corpus, cash and income accounts, we do not attempt to give full details in the ledger; but are keeping a subsidiary card record which reflects all of the essential data relative to the assets of a trust.

For subsidiary purposes the card record has the advantage over a book record of being much more flexible and capable of expansion. Our experience with the book record was somewhat disappointing in that we found it necessary frequently to re-write several pages because of the fact that entries of the same security might be widely separated, due to purchases being made at different times. As a result of this situation, we recently adopted the use of cards for the purpose, so that an analysis of the record would not be necessary whenever it was desired to ascertain how much of a certain security was held in a particular estate or trust, which is frequently the case.

In order that we may be in a position to determine immediately whether the department is holding any of a certain type of property, we are using "master cards," headed with the description of the property, below which is given a list of the several trusts for which such property is held.

We believe that it is highly desirable to carry control accounts which represent the total of the various accounts in the trust ledger. For example, the cash control account represents the aggregate of the cash account of all trusts and estates in process of administration by the department, and must agree with the reconciled balance of the trust department checking account on the individual books of the bank. This plan materially reduces the possibility of postings being made to wrong accounts, since the periodical proof of the ledger will automatically disclose such errors, if any.

In order to build up control accounts, we have employed the medium of the columnar journal and cash book, the headings of the columns being the same as the titles of the accounts carried in the records of the various trusts. By posting the totals of the various columns to the proper control accounts at the end of the month, the proof figure becomes automatically determined.

We have adopted the ticket plan of making the original entry of transactions as they occur. A journal ticket is provided for all entries which do not affect the cash account. A debit cash ticket is provided for the recording of all receipts of cash, such ticket having provision for the entry of offsetting credits. Our cash credit ticket is the third copy of our trust department check. These tickets are posted individually to the proper accounts of the various trusts, and for purposes of constructing the control accounts, are entered in the columnar journal or cash book, as the case may be.

We carry all of our trust funds in a single account in the individual ledger department of the bank, such deposits being secured in accordance with the regulations of the Federal Reserve Board.

Our trust department check is so arranged in triplicate that it is written by the use of carbon inserts at one operation. The original consists of the check itself and a detachable transmittal letter or statement, the duplicate being a receipt for the signature of the payee to be used as a voucher in accounting to the Probate Court, the third copy constituting the cash credit ticket bearing the signed authorization of the trust accountant. That our checks may be collected without cost to the payee, we have provided that they may be presented to one of our designated New York correspondents.

We have so arranged our bookkeeping forms that all tickets made must bear the "O.K." of the trust accountant, thus making him definitely responsible for the correctness of all entries, both as to the amounts involved and as to technique.

Possible Oversights

ONE of the most difficult problems which the head of the trust department must solve is that of eliminating the possible oversight of legal and other matters which should be given attention in routine order and at definite times. In order to obviate such oversight, we have attempted to develop forms listing all of the details which should be given attention as provided by law in connection with an estate or trust. Using these forms as a guide, the necessary tickler cards are made out so that these duties will be brought automatically to the attention of the proper officers or employees of the department. Such a plan, if consistently followed, should enable the trust officer to assure himself, upon the termination of a trust or estate, that all of the statutory or other necessary procedure has been taken, and that the trust has been fully administered and in condition for final distribution.

In making up our card records, we have endeavored so to arrange the forms as to make certain that all matters in connection with the assets, which should receive the attention of the department, have been properly tickled, and that the cards themselves will not be filed until the proper tickler cards have been made. This is accomplished by requiring that each item transferred from the record card to the tickler shall be initiated by the employee entrusted with the duty.

The employment by corporations of a bank or trust company for the transfer and registration of their capital stock certificates has become very general, mainly because of its economy and safety. Frequently in Denver and the Mountain States one institution will act in the dual capacity of transfer agent and registrar, although the functions of the two agencies are entirely distinct.

The transfer agent must pass upon the regularity and validity of the title conveyed by the assignment of all certificates presented for transfer and secure the necessary resolutions in the case of corporations, or the inheritance tax waiver, letter of appointments and other credentials if the stock is the property of a decedent's estate.

The duty of the registrar is generally construed to be limited to the cancellation of a share of old stock for every new share issued, or briefly, to prevent an over issue of the duly authorized capital stock.

When a corporation maintains transfer agents in two or more cities, daily advices must be exchanged so that each may determine the validity of certificates issued by the other.

Trust departments are frequently asked to handle the issuance and transfer of voting trust certificates issued under a voting trust agreement, between a number of the shareholders of the corporation affected. Voting trust certificates are usually issued in negotiable form. In this case the depositary bank becomes the agent of the voting trustees. Consolidations or mergers of two or more corporations are frequently made through

the medium of the trust department as a depositary for the receipt of the old stock and the issuance of temporary certificates of deposit to be exchanged for the new issue of the consolidated company's stock when the merger is completed. It may be noted that not the least important of the responsibilities of the transfer agent is the collection of the Federal Stamp Tax upon each transaction. Especially is this true with regard to original issues and in the release of treasury stock. The transfer agent must be careful also that he is furnished with sufficient funds for this purpose and with properly certified resolutions of the board of directors of the issuing corporation authorizing and directing such issue. The representative of the Internal Revenue Collector for the District will have access to the records and will hold the transfer agent to a strict accounting for all revenue due to the Federal Government. We have found it desirable to have printed forms of contracts covering all necessary requirements in connection with transfer and registration, with an agreed schedule of fees for the services rendered.

The duties of transfer agent and registrar are exceedingly onerous and at times exactly difficult, but the paucity of litigation in respect of irregularities or of failures to meet the obligations imposed upon them shows how faithfully the work has been done.

The responsibilities and obligations of the trust department are cumulative and once undertaken cannot be ignored or lightly esteemed, hence all doubtful propositions should be unhesitatingly declined.

McFadden Opposes New Bill

DURING the past month numerous inquiries have been received by members of Congress as to the situation presented in the bill H. R. 3206, "Obligating Federal Reserve Banks to pay interest upon all realized balances," introduced by Representative Fulmer of South Carolina and referred to the Committee on Banking and Currency.

Representative Louis T. McFadden, chairman of the committee, has stated that no formal action has been taken by the committee thereon.

"I would state, however," said Mr. McFadden, "that the Committee on Banking and Currency, and the Joint Committee of Inquiry on Membership in the Federal Reserve System, of which I am also the chairman, have given this question considerable thought, and the proposition is believed to be untenable, as it would of necessity bring the Federal Reserve Banks into active competition with all banks in order that the system could realize a profit to enable it to pay, in addition to legal demands, interest on balances. As you know, it was never intended that the Federal Reserve System should engage in a general banking business. If it entered into competition with other banks and bought the necessary paper to so function, it would tie up the liquid assets of the banks so that in an emergency the system would not be able to render full service as required, as its assets would be similar to the assets of the other banks, and it is most essential that the liquidity of the system's assets be maintained at all times."

Bankers Figuring in the News



H. M. Robinson Sir Reginald McKenna



Dr. Hjalmar Schacht of Germany



Richard Beatty Mellon

THE American banker is figuring prominently in the finances of the whole world today.

Over in Germany, Henry M. Robinson, president of the First National Bank of Los Angeles, is collaborating with the leading bankers of Europe in tracing the flight of German capital to the other money centers of the world. The information which the committee has obtained is being turned over

to the Reparations Commission so that it may arrive at a reparations figure that the vanquished country can pay. In the photograph appearing above, Mr. Robinson is shown with Sir Reginald McKenna, president of the Midland Bank, Ltd., of London, as they were walking along the streets of Berlin.

A gold bank for Germany has already won the indorsement of the Dawes Commission, which is making a study of Germany's finan-

cial ability to pay reparations. The gold bank was espoused by Dr. Hjalmar Schacht, President of the Reichsbank, who is regarded as one of Germany's keenest financiers.

On February 22, the University of Pennsylvania bestowed the honorary degree of Doctor of Laws upon Richard Beatty Mellon, president of the Mellon National Bank of Pittsburgh and brother of Secretary of the Treasury Mellon.

Broadcaster of Wall Street's Joys and Glooms

RICHARD L. BANFORD is known in the financial district of New York as the Broadcaster of Joy and Sorrow.

He is chief of the New York Stock Exchange's ticker service and supervises the sending out of the news relative to the rise and fall of stocks. During his twenty-five years of service in the capacity of chief of this service, he has seen scores of millionaires made paupers overnight — and there have been times when the staccato clicks on the thin, white tape sounded the funeral dirge for fortunes.

At times when stocks are rising like skyrocketing or dropping precipitately like falling stars, an interval of a few seconds may cost thousands of dollars. Speed and precision are the two great essentials in the transmission of stock news, and this is what Mr. Banford must



Mr. Banford regarding the thin white tape that tells the pulse beat of finance and industry

always provide for.

In the photograph (left) Mr. Banford is shown checking over the day's quotations with one of his reporters.

On a dull market day, Mr. Banford states that the sale of stock and the recording of its price on the tape are virtually instantaneous, only a few seconds elapsing. The dispatch of the news is somewhat slower on an active market, but withal remarkably rapid.

The ticker service is another American invention, first coming into use about fifty years ago. It has been adopted in some foreign countries, but not all.

The highest number of stocks which have been quoted on the ticker during any one day is 520.

Some of the Major Problems

By JAMES E. CLARK

IF the world is an economic whole, surely that part of the United States which used to be called the bread basket of the nation is important enough in national economics to be the concern of all business. It should, therefore, be a matter of satisfaction everywhere that in a recent Washington conference there was evolved a way economically safe for extending help to what was for many years one of our greatest wealth-producing sections.

Emergency financing in the Northwest, according to plans at this writing, is to be accomplished through the formation of a \$10,000,000 corporation, the stock of which has been subscribed by private capital. The organization of this agency for relief will make possible the use of War Finance Corporation funds, because the \$10,000,000 emergency relief corporation will be responsible to the War Finance Corporation for its discounts. Under this plan any losses will not be borne by government funds but by the emergency corporation. In the opinion of Secretary of the Treasury Mellon published in connection with the announcement of the plan, the risk will not, however, be great.

In bringing about this result the Government has apparently gone as far as it could to extend aid. In determining upon a special and separate corporation through which to extend aid the financiers seemingly have followed the dictates of safe business procedure. By the plan thus adopted the area affected is in a sense held in control whereas, if in violation of the principles of safe banking, more and more credit were extended by banks and the Government the "infected area," to borrow a term from medicine, might spread producing adverse results on business and banking remote from the region.

The well worn truism that the birth of a new condition is always attended with pain applies to the Northwest. So much of its market for wheat has gone that in the opinion of many observers its period of being a profitable one-crop section has, at least temporarily, closed. The foundation of the new Northwest must be built on that broader structure called diversified farming. The help which is now forthcoming both from the East and the West need not therefore be considered only as aid to the injured. The help may more properly be considered as assistance to a hardy people in rebuilding the prosperity of a great section of the nation. America is ever industrious and resourceful. The worst has passed. The mere fact that aid has been provided should have a stimulating effect, and there is something inspiring in the spectacle of the people of a great area about to build a new, and it is to be hoped, a greater prosperity than they have ever before enjoyed.

Officers Disclaim Responsibility

INFORMATION received at Washington from Fort Sumner, N. M., indicates a state of affairs quite different from that suggested by a long and earnest telegram printed in the *Congressional Record* denouncing the Federal Reserve System because the First National Bank of that town had closed its doors.

It now appears that the Fort Sumner bank had made arrangements to receive some assistance from the Reserve bank of its district, had offered for rediscount its paper, which was acceptable, and had been promised further aid if further aid were needed.

Instead of accepting the assistance offered by the Reserve bank, the Fort Sumner bank saw a run developing and decided that to protect all of its depositors it would simply close its doors. A notice posted on the door of the bank said that the closing was "because of inadequate temporary aid from the Federal Reserve Bank."

The officers of the First National Bank disclaim, according to the Washington report, responsibility for the placing of that notice, and they say that no officer of that institution placed it.

Business Without Confidence

CONFIDENCE in business is like health. Everyone knows it is a good thing, that it is the basis of credit, and that when confidence wanes, credit tightens or disappears. But like health we do not know just how valuable a thing it is until lost, or impaired. A recent dispatch from Berlin to the *Wall Street Journal* gives the basis of an appraisal, by indirection, of the value of confidence. The real shortage in Germany, it is asserted, is not a shortage of money but a shortage of credit, due in part to the lack of confidence of the world in Germany, and especially to the lack of confidence on the part of Germans in one another. There is plenty of currency passing from hand to hand. "Farmers," says the writer, "have to pay as high as 5 per cent a day for money. In January the average borrower without special bank connections was obliged to pay for paper marks from $\frac{1}{8}$ to $\frac{1}{2}$ per cent a day. Firms were paying 80 to 100 per cent a year. Banks are giving credit from 13 to 20 per cent a year, the borrower carrying the risk of depreciation. Rentenmark credit with depreciation clause costs 10 per cent a year and 20 to 30 per cent without it."

From these rates we get a suggestion as to the actual value of confidence in business. Here in the United States confidence in business is all-pervading, for the average man believes in fair dealing from the moral side and believes in fair dealing from the commercial side because he knows that fair dealing is the most economical way to do business and that when confidence disappears all business is affected.

Within a few years there has developed

here in the United States the "scofflaw" spirit, born not of adversity but of prosperity, manifested not alike in all persons but nevertheless manifested to an alarming degree, each class of offenders transgressing according to his propensity for indulgence or his determination to accumulate by devious ways. The growth of that spirit is inimical to confidence in business, for which, it is reasonable to assume that, both directly and indirectly, the whole business of the country pays.

Capital Levy by Indirection

THE impulse of the worker is to get things done; the impulse of the seasoned statesman is to look down the years. It was not, therefore, an unexpected act when Premier MacDonald, the leader of the Labor Party in Great Britain, recognized the Soviet Government of Russia nor was it unexpected that statesmen in other countries were concerned that recognition should be accorded unconditionally. The more experienced statesmen saw in that act a weakening of Great Britain's power to collect the great debt of 655,199,355 pounds which Russia owes her. They saw further that this recognition strengthens the Russian tendency to repudiate and weakens their own plans to make provision for the funding of the debts, a condition preliminary to the resumption of diplomatic and commercial relations. With a stroke of the pen Premier MacDonald took all of the "big stick" potency out of the debt when he said in his note of recognition: "Technically unconnected with recognition but clearly of utmost importance are the problems of settlement of the existing claims by the government and nationals of one party against the other and restoration of Russia's credit."

When the attitude of the Russian delegates to the economic conference in Italy is recalled, it is not to be assumed that Russia's debt to Great Britain is to be settled out of hand. Russia's impoverishment is not confined to the mere matter of goods. Her people have an impoverished appreciation when it comes to assuming any part of the debts contracted by a hateful and destroyed dynasty. We may perhaps safely assume that there are many millions in Russia to whom the idea of paying this colossal debt, or even making provision for its payment will be regarded as a heresy.

All the facts and conditions which prompted the unequivocal recognition are not at hand. Surely the hope that a revived trade would reduce unemployment in England was an impelling reason, but if Russia fails to recognize the great debt—and now she is in a better position than ever to repudiate it directly or by inaction—then by indirection will Great Britain have suffered the effects of a capital levy which falls not on a class but on the whole nation.

The fear of a direct, orderly capital levy has long been upon all of Europe. It has

materialized in but one instance, and then capital took wing before it.

But the speculative lure of the German mark made a great world-wide levy of capital by indirection in which the taxed generally surrendered cheerfully and even eagerly. Be it called repudiation, cancellation, settlement or even the casting of bread upon water, the failure of a nation to arrange eventually to get its due from Russia is in the last analysis a levy by indirection.

The regular capital levy as proposed abroad was predicated on the thought that it would wring from the rich for the benefit of the poor. In the capital levy by indirection the poor do not escape.

Service and Profits

FROM one village and its adjacent territory in an Eastern state there was lost in a period of twelve months \$3,000,000 in the purchase of worthless "securities."

The people who yielded their money without investigation were not the only losers. There was a community loss, a loss of happiness and of optimism, maybe a loss in the sense that eventually some of the fleeced may become dependent upon public charity. There was a loss in buying power, a loss of faith in humanity and finally a loss to the local bank or banks in ordinary course of business. There was even another loss to the local bank in that it might have directed most of this money into safe employment with the "wages" coming back to its townspeople at regular intervals. The local bank might also have made a legitimate profit on the \$3,000,000.

Let us suppose that the local bank had induced the people in its territory to invest \$3,000,000 in safe dependable securities on which the bank could make a profit of one-half of one per cent. That would have given the bank a gross gain of \$15,000 in profits. Suppose objection is raised in the reader's

mind, in effect that no bank could influence the investment of all of the money that goes into wildcat speculation. To meet this objection the figures may be divided by two, or by three, giving respectively a profit of \$7,500 or of \$5,000 per year. And even if there were no profit at all, a small town banker would be in a far better banking position if he were the means of preventing the dissipation of his community's capital.

Passive resistance to the blue sky stock salesman and a cordial readiness to investigate and advise are not sufficient to end these disasters. Nor will state and national "blue sky" laws give sufficient protection. The bank or bankers in every community should set up some form of protective organization and keep it in continuous operation. Where a community is too small to permit a separate organization to function there is always the local newspaper in which there should be carried throughout the year aggressive, dignified advertising written for the primary purpose of protecting the money of the community.

This protection is a legitimate part of the banker's duty to his community. More than that, however protective and advisory service is, the banker's own opportunity to make for himself a larger place in the hearts of his people and to incidentally make for himself additional profits. A loss such as that just cited comes pretty near being a reflection on the banker both as a community leader and as a man of business.

Duplication of Bonds

THE United States Government cannot afford an intermittent mystery in connection with the Bureau of Engraving and Printing at Washington. President Harding dismissed twenty-eight employees of the Bureau after the discovery of some irregularities in the printing of bonds and the public assumed that the incident was closed.

Lately, however, the subject was revived, revealing a controversy between Charles B. Brewer, a Department of Justice attorney and the Treasury Department. Early in February the attorney filed a suit to restrain the Treasury Department from interfering with him in the possession of a number of securities in which he said there are irregularities. Mr. Brewer had already made a report to the Treasury and the Department asked for certain securities in his possession in order to verify his report. He accused the Treasury Department of an intent to destroy evidence of alleged irregularities.

That there have been duplications in the numbering of bonds during the great war-time operations is no secret. Secretary Mellon has made public statement to that effect and has also said that there was no duplication of the Government debt on that account.

It is easy to understand that in the printing of one hundred million pieces of securities, errors have been made. It is, however, a singular circumstance that an investigator, appointed by the Government should go to court to keep in his own possession evidence that to the laymen at least, might appear to be a part of the report itself. The attorney, according to Washington dispatches, exhibited his evidence to a group of House members and immediately there was talk of an investigation which would make the whole story a matter of record. Investigation is one of the outstanding American industries, and it is useful and necessary, but the smoke and gas from this industry are sometimes of baneful influence. It may not be necessary to put the subject of bond duplication into the investigation mill and have produced the usual display of star shells for the temporary illumination of the public mind, but a recurrence of the discussion would indicate the need of some action which will finally and effectually—if not promptly—dispose of this case.

Equal Opportunities for City Banks

(Continued from page 571)

states it will very quickly result in the practical extinction of the national banks (and also the independent unit banks) in those states. On the other hand, if the National banks may not meet the operation of the state banks on terms of equality within the city limits, in many cities they will withdraw from the system to such an extent as will cause its rapid decline. As illustrating how far this tendency has already proceeded I merely cite the situation of the National banks in the following great cities:

"New Orleans has one National bank, 8 State banks, 39 Branches. Cleveland has three National banks, 22 State banks, 77 Branches. Detroit has three National banks, 15 State banks, 214 Branches.

"Conditions in New York City are developing rapidly along the same lines as in these other cities.

"It has been my duty as Comptroller of the Currency to discuss this question frequently and seriously with bankers from all sections, and I think that I can inter-

pret their general opinion; it is that the formula proposed by this bill is fair, that it is effective and will relieve the situation if immediately applied. If this and other remedial action is not taken by this session of Congress, a crisis will be precipitated which will endanger the National banks, the Federal Reserve system, and possibly result in a fundamental change in American banking.

Failure to Legislate

"FAILURE to legislate is in effect promotion of the cause of branch banking. An attempt to cure branch banking by throttling the National banks in their local activities is worse than futile. It would, I believe, be strictly true and convey a very accurate picture of the situation if I were to tell you that I believe that practically every National bank in large cities where state banks are engaged in branch banking has had a survey made of exactly what steps are necessary to go into the state system, in case this proposed relief is denied them. The banks in the smaller communities in states where state-wide branch banking is permitted, are not obliged to make such a survey.

The question with them is whether or not they will be absorbed by branch banks, or die out by gradual starvation.

"To repeat, the condition of the National system is not a matter for academic discussion; it is critical and a subject for immediate action.

"After the most careful study and consultation with bankers who are operating under the most varied conditions and in all sections of the country, I have come to the conclusion that the passage of this bill is a matter of the utmost importance and benefit to the National Banking system, the Federal Reserve system and to the banks of the country generally. I cannot too strongly emphasize the desirability of the earliest possible action."

The Birthday of a Bank

On Feb. 12, 1924, the State Exchange Bank of Macon, Macon, Mo., celebrated its thirtieth anniversary. The bank was attractively decorated for the occasion with flags, ferns and baskets of flowers. There was music throughout the day and evening. Refreshments were served, and souvenirs given to each man, woman and child who attended. The bank was thronged with visitors numbering into the thousands, and the occasion was, without doubt, the biggest event in the history of the institution.

Opinions of the General Counsel

By THOMAS B. PATON

Shareholder's Right to Equality in Tax Payments

IN West Virginia, banks pay taxes on stock of their shareholders with right of reimbursement but the latter are entitled to deduct their debts from the taxable value. Where a bank pays full tax on some of its shares, but no tax on stock of a particular shareholder because of allowance of deduction claim, question is asked as to the latter's right to payment by the bank of an amount equivalent to the tax paid for other shareholders. *Opinion:*—While no precedent can be found, it is a fundamental principle that all shareholders of the same class are entitled to equal rights and benefits, which principle would be violated, where the bank did not collect the tax from those shareholders for whom it paid same, or deduct same from their dividends; and upon this principle, the shareholders for whom no tax was paid would be entitled to a compensating benefit.

From West Virginia:—Your attention is called to Section 79 of Chapter 29 of the Code of West Virginia which is the basis of the claim made by one of our stockholders that he is entitled to the amount of taxes not paid on his stock, due to having filed list of deductions claimed; that the payment of taxes on the stock of one stockholder out of the earnings of the bank is equivalent to paying a dividend of such amount to such stockholder. Therefore, all others should receive a like distribution, and if not paid in taxes to be paid to them direct.

Will appreciate your favoring us with your opinion as to the right of a stockholder to compel payment of amount not paid in taxes due to such stockholder having filed list of deductions that exempted the bank from payment of taxes on his stock.

Under the law of West Virginia, a bank is required to pay the taxes assessed against the shares of its stock but may recover the amount from the shareholder or deduct it from his dividends. Differing from most states, the holders of bank shares are permitted, by the statute, to file claims for deduction of indebtedness and the amount of such claims, if allowed, may be deducted from the value of the shares for purpose of taxation. As a result, a bank may pay more tax on the shares of some of its shareholders than upon the shares of others, dependent upon the amount of deduction claims filed and allowed.

In the case presented, a shareholder who has filed a deduction claim, relieving his shares from payment of taxes, contends that he is entitled to receive from the bank an equivalent to the amount which would otherwise have been paid for taxes on the shares, in order that he may derive an equal benefit with the other shareholders; that the payment of taxes out of the bank's earnings for some of the shareholders and not for others should be regarded as in the nature of a dividend in which all should equally participate.

A careful search of the authorities has been made but no decision upon a parallel state of facts has been found.

There is an obvious inequality where a bank pays, out of the earnings belonging to

all, the tax obligations of some and not of all its shareholders. It is a fundamental principle that all the shareholders of a corporation in like class are entitled to equal benefits. For example, in *Reese v. Bank of Montgomery County*, 31 Pa. St. 78 where a bank was incorporated when only a portion of its capital was subscribed and the directors afterwards distributed the balance of the stock pro rata among the subscribers who had paid up their instalments and refused to give a portion to one who was in arrears, the latter was held to have a right of action against the bank itself as the act of the directors was in violation of the equal rights of the corporators.

Equally on principle, the distribution of a portion of the assets of a bank for the benefit of some but not all of its shareholders by way of payment of tax liability, would be in violation of the rights of those not equally benefited unless the bank in some way compensated the others.

If this is true in principle, the complaining shareholder is entitled to proper compensation and the same right would exist on the part of other shareholders, if any, for whom the bank had paid no taxes, or less taxes on their shares, than upon others.

The question arises what would be the proper method of compensation. The statute provides two alternative methods by which a bank may itself obtain reimbursement for taxes paid for its shareholders, both permissive, namely, (1) recovery of amount paid from the shareholder or (2) deduction from his dividends. If either of these methods were employed, no inequality would result. But assuming the bank is not desirous of employing either method, it would seem the only other course to pursue would be to pay the complaining shareholder an amount equivalent to what was paid upon an equal amount of shares where there was no deduction from the tax value; and upon the same principle, if there were some shareholders who filed deduction claims against a part of the tax liability on their shares, they would be entitled to payment by the bank of the difference between the full amount paid for taxes on shares upon which no deduction was claimed and the amount of taxes actually paid by the bank on their shares.

As already said, no case has ever come before the courts where the right of a shareholder to a compensating payment to equalize payments for taxes of other shareholders, has been sought to be enforced; but I am of the opinion a court of equity would enforce such a right by some appropriate form of remedy should such a case be presented.

Liability of Bank as Guarantor of Payee's Indorsement

ABANK in Nebraska received for collection a check on another bank in the same city, guaranteed prior indorsements and

received payment through the Clearing House, remitting the proceeds through two prior banks which afterwards failed. Six months after receiving payment, the collecting bank was notified that the indorsement of one of the two joint payees was forged. The drawer had the signature of the payee in its possession. *Opinion:*—Upon such a state of facts the collecting bank is not liable to the true payee but would be liable on its guaranty to the drawee bank and the fact that there was six months delay before notification of the forgery by which the collecting bank was prejudiced would not relieve it from liability where prompt notice was given after discovery of the forgery; nor would the fact that the drawer had the payee's signature in its possession and failed to discover the forgery for six months, be available to the collecting bank as a defense against the drawee's recovery. However, under the special facts of this case, the check having been given by a Federal Land Bank to a borrower and the secretary-treasurer of a farm loan association jointly, the borrower's indorsement having been forged by the secretary-treasurer and the proceeds paid to him and he being charged by law with the duty of paying over to borrowers sums received for their account from the Federal Land Bank, there is some ground for maintaining the farm loan association would be responsible for the acts of its agent done in connection with its business and within the apparent scope of its authority and that the drawee could hold the farm loan association responsible for such proceeds; in which event the collecting bank, if compelled to make good its guaranty of indorsement to the drawee bank, would be subrogated to the latter's rights against the farm loan association.

From Nebraska:—One R made application to the Federal Land Bank for a loan through the S National Farm Loan Association of which association one K was secretary-treasurer. K was also cashier of the G bank of S.

Under date of July 19, 1923, the Federal Land Bank issued its check for \$5,045.00, payable to "R and K Sec'y-Treas." and sent same to the latter. This check was deposited in the G bank of S bearing the indorsement of both payees. The S bank forwarded the item to the J bank, which indorsed the item and sent it to the L bank, which on July 25, 1923, received payment from the drawee through the clearing house.

Under clearing house rules the indorsement of a member guarantees previous indorsements.

The J bank closed its doors on January 9, 1924, and the G bank of S closed about the same date.

On February 18, 1924, the drawee notified the L bank that the indorsement of K was genuine, but that R had made affidavit that his indorsement was a forgery, that he had received from K an advance of \$650 on July 19, 1923, but that he had received no further payment on account of the loan applied for. We are advised that K is in jail charged with other forgeries. Section 7 of the Federal Farm Loan Act makes it compulsory for the secretary-treasurer of a national farm loan association to furnish surety bond to be approved by Federal Farm Loan Board. Section 9 of said Act places a double liability on shareholders of national farm loan associations.

The Federal Land Bank had the original application of R for a loan, therefore it had in its possession the genuine signature of R.

Had the item been returned to the L bank before the closing of the J bank and the G bank of S, the amount could, in all probability, have been collected back from previous indorsers.

We are anxious to ascertain what and wherein is the liability of our bank—the L bank—in the foregoing case, and, if consistent, would like to have your opinion thereon.

In this case a check made payable to two payees jointly is indorsed by one who forges the indorsement of the other and, after passing through two intermediate banks, which have since failed, has been collected by your bank from the drawee through the Clearing House under a guaranty of previous indorsements. Your bank was not notified of the forgery until nearly seven months later and after failure of the two intermediate banks. The drawer of the check had in his possession the signature of the joint payee whose name was forged, which was subscribed to an application for a loan.

The question is as to the liability of your bank.

Where the holder of a check under a forged indorsement of the payee's name, receives payment of the check, some cases hold that the true payee may recover the proceeds which the holder has received on the ground that the latter has converted his property. But this rule would not apply in your case because, as I understand, your bank held the check as agent for collection and paid the proceeds over to the bank from which you received it; nor do I think your bank's guaranty of the genuineness of the payee's indorsement would run to the true payee, so as to make your bank liable for breach of that guaranty to the latter.

The liability of your bank, if at all, would run to the drawee under the general rule that money paid by the drawee upon a check bearing a forged indorsement is recoverable from the holder receiving payment. This rule would not apply to a mere agent bank after the proceeds had been paid over to its principal. But would apply to your bank in view of the fact that it guaranteed the genuineness of the payee's indorsement. In other words, relying upon such guaranty, the drawee paid the check to your bank and would have the right to recover from your bank the money so paid unless (1) the nearly seven months' delay in notification by reason of which you were prejudiced, would constitute an estoppel or (2) the fact that the drawer, having the payee's signature in his possession, failed to notify the drawee within a reasonable time would bar recovery.

There are decisions which hold that a four or six months' delay in giving notice after discovery of forgery of an indorsement is unreasonable and is fatal to recovery provided the bank receiving payment is prejudiced by the delay. *Cunningham v. First National Bank*, 68 Atl. (Pa.) 731; *McNeely v. Bank of N. A.*, 70 Atl. (Pa.) 891. But it has been held that mere delay in discovery, where there is prompt notification after discovery, does not bar recovery. *Russell v. First Nat. Bank*, 56 So. (Ala.) 868; *Second Nat. Bank v. Guarantee T. & S. D. Co.*, 206 Pa. 616; *Corn Exchange Bank v. Nassau Bank*, 91 N. Y. 74. And it has been held by the Supreme Court of the United States that the drawee may recover for breach of warranty of genuineness irrespective of delay in notification after discovery. *United States v. National Exchange Bank*, 214 U. S. 319.

In the present case, it does not appear that there was any unreasonable delay in notification

after discovery of the forgery. Hence the delay of between six and seven months in notification, would not bar recovery.

Nor do I think the fact that the drawer had the payee's signature in his possession and failed to notify the drawee of the forgery within a reasonable time, would entitle the drawee to charge the amount to the drawer's account or bar that bank from recovering the money from the bank which received payment under its guaranty.

By the weight of authority, it is not the duty of the drawer of a check to examine the indorsements on a check, as he is justified in relying upon the bank's observing proper precaution to see that payment is made only in accordance with his directions, and he is not bound to know the signature of the payee or other indorsers. *Los Angeles Inv. Co. v. Home Savings Bank*, (Cal. 1919) 162 Pac. 293; *German Sav. Bank v. Citizens' Nat. Bank*, 101 Iowa 530, 70 N. W. 769; *Jordan Marsh Co. v. Nat. Shawmut Bank*, 201 Mass. 397, 87 N. E. 740; *Masonic Benev. Assoc. v. Columbus First State Bank*, 99 Miss. 610, 55 So. 408; *Pratt v. Union Nat. Bank*, 79 N. J. L. 117, 75 Atl. 313; *Shipman v. Bank*, 126 N. Y. 318, 27 N. E., 371, (where the court said on this point: "The defendant's contract was to pay the checks only upon a genuine indorsement. The drawer is not presumed to know, and in fact seldom does know, the signature of the payee. The bank must, at its own peril, determine that question * * * When it returns the check to the depositor, as evidence of a payment made by his direction, the latter has the right to assume that the bank has ascertained the fact to be that the indorsement is genuine."); *Kearny v. Met. Trust Co.*, 97 N. Y. Suppl. 274; *United Sec. L. Ins. & C. Co. v. Central Nat. Bank*, 185 Pa. St. 586, 40 Atl. 97; *Pollard v. Wellford*, 99 Tenn. 113, 42 S. W. 23; *Guaranty State Bank & Co. v. Lively* (Tex. C. A.), 149 S. W. 211.

However, in the comparatively recent case of *Prudential Ins. Co. v. Nat. Bank of Commerce*, 227 N. Y. 510, 125 N. E. 824, it was held that it was a question for the jury to determine whether or not a drawer having the genuine signature of the payee of a check in his possession exercises due care in examining his returned vouchers, where the indorsement on checks sent to his agent for delivery were forged by the agent, and there are circumstances in evidence tending to charge the makers with notice of irregularities of the agent. On this point the court said: "We think in this case that it was at least a question of fact upon the evidence before the court, a brief statement of which we have given, whether the plaintiff was negligent in failing to compare the indorsements on the checks which had been returned to it by the defendant and other banks, with the genuine signatures of the payees in its possession, prior to the payment of the Phipps and Wade checks, and whether such negligence, and the consequent failure of the plaintiff to notify the defendant of the information that it would have obtained by such examination, contributed to the payment of said checks by the defendant bank." The circumstances referred to in the opinion were that the agent of the drawer of the checks, who committed the forgeries of the indorsement of the checks in suit, had previously forged the indorsement of the names of the payees of other checks, and the

knowledge of such forgeries had been brought home to the drawer before the forgeries of the indorsements of the checks in suit had been perpetrated. Hence, the contention of defendant bank that had plaintiff notified it promptly of these former forgeries, it would have been on its guard against a repetition of the offense when the checks in suit were presented for payment.

The New York decision cited above was a case between drawer and drawee and indicates that, notwithstanding earlier decisions to the contrary there may be some duty on the part of the drawer of a check, running to the drawee to examine returned checks as to the genuineness of the payee's indorsement where the drawer has the genuine signature of the payee in its possession. But however this may be, it is doubtful if such duty could be held to run to the holder of the check which receives payment from the drawee or that the neglect of any such duty on the part of the drawer to drawee would be available as matter of defense by a guaranteeing holder against an action by the drawee to recover the money paid upon forgery of the payee's indorsement because of breach of guaranty of genuineness.

The above would lead to the conclusion that your bank would be liable to the drawee upon its guaranty of genuineness of prior indorsements, for money received upon a forgery thereof, unless the following special facts would constitute a defense; the check was given by the Federal Land Bank as a loan to a borrower and made payable to the borrower and the Secretary-Treasurer of the Farm Loan Association through which the loan was procured, jointly, and the Secretary-Treasurer after forging the name of the borrower as joint payee obtained the proceeds of the check collected through the agency of your bank and the other intermediate banks. Section 7 of the Federal Farm Loan Act makes the Secretary-Treasurer of every farm loan association the custodian of its funds and makes it his duty "to pay over to borrowers all sums received for their account from the Federal Land Bank upon first mortgage" and provides that he shall "furnish a suitable surety bond * * * for the proper performance of the duties imposed upon him under this act."

The question arises upon these facts whether the Federal Land Bank can complain against being charged with the amount of this check by the drawee bank, notwithstanding one of the two indorsements was forged, when the proceeds were actually paid to the joint payee who under the Act is designated as the one to receive the money from the Federal Land Bank and pay it over to the borrower? True, the money was paid by the drawee upon forgery of the borrower's indorsement but it went to the joint payee who, under the law, was designated to receive it. If this amount is chargeable by drawee to drawer, then the former is not damaged and there would be no liability of your bank for breach of guaranty of genuineness. The Federal Land Bank, however, might contend that the genuine indorsement of the borrower was necessary, not to prevent the proceeds from being paid to the other joint payee, but as a means by which the borrower would acquire knowledge that the loan had been granted; and this might have prevented the Secretary-Treasurer from using the money for his own purposes and

concealing the defalcation for six months. In my opinion, a court would probably hold that, notwithstanding the proceeds went to the joint payee who was entitled to first receive it, the payment was not strictly in accordance with the authority or order of the depositor and consequently was a payment of the bank's own money not chargeable to the drawer's account. Under such a ruling, your bank would be liable on its guaranty to the drawee bank.

This leads to the further question whether the drawee bank would have any cause of action against the farm loan association, to which your bank would be subrogated. Assuming this check had been paid directly to the Secretary-Treasurer instead of through the channel of three banks, the situation is one where a loan has been made to a borrower through a farm loan association and the secretary-treasurer has received the money for his account, although not carrying out the precise method provided for obtaining it upon two indorsements and the Act makes the secretary-treasurer the custodian of its funds and under duty to pay over to borrowers all sums received for their account. While the farm loan association could not be held responsible for the acts of its secretary-treasurer in forging the indorsement, there is some ground for maintaining that in receiving the money on this loan, although by an irregular method and misappropriating the same, the association was bound by his acts and it and its surety bond would be responsible to the drawee for the amount. If so, and your bank was compelled to make good its guaranty to the drawee bank, it would be entitled to be subrogated to any rights the latter would have against the farm loan association and its sureties. Against the contention of liability of the farm loan association, it might be urged that the secretary-treasurer was not, under the circumstances, receiving the loan money ordered paid by the land bank for the account of the borrower but was receiving the drawee bank's own money. But even so, banks and other corporations are held responsible for the acts of their officers within the scope of their apparent authority and when the secretary-treasurer of a loan association who has been accredited to the public as such, receives money on a check payable jointly to him and to a borrower, it would seem that his act in indorsing the borrower's name and in collecting the check through agents would be within the scope of his apparent authority so as to make the loan association liable for the loss sustained. It is impracticable to prepare a detailed brief on the propositions last advanced, which are merely outlined above but it would seem that while your bank would be liable on its guaranty of genuineness to the drawee, there is some ground for maintaining that there is a remedy over against the loan association.

Payment or Certification on Saturday Evening

A BANK in Maryland keeps open on Saturday evenings and inquires as to the validity of certification of checks at that time. *Opinion:—The Negotiable Instruments Act requires instruments falling due or becoming payable on Saturday to be pre-*

sented for payment on the next succeeding business day, except that the holder of demand instruments has the option to present before twelve o'clock. Until the point is specifically decided, there is some uncertainty and risk in paying or certifying checks on Saturday after twelve to or for holders other than the drawers should a depositor claim illegality and the right to stop payment at opening of business Monday, although, where it is the bank's custom to keep open Saturday evenings, the depositor might be bound thereby. A statute has been prepared for state enactment to validate Saturday afternoon payments.

From Maryland:—Will you give us an opinion as to how we stand on certifying a check on Saturday after 12 o'clock. Understand we are open for business Saturday evenings from 7 to 10 p. m.

Saturday afternoon is not a legal half-holiday in Maryland except in Harford County. The Negotiable Instruments Act of Maryland however, provides:

"Instruments falling due or becoming payable on Saturday are to be presented for payment on the next succeeding business day, except that instruments payable on demand may, at the option of the holder, be presented for payment before 12 o'clock noon on Saturday when that entire day is not a holiday."

In view of this provision the bank would take a certain amount of risk if it paid or certified a check on Saturday afternoon or evening, for a holder other than its own depositor; that is to say, the point has never yet been decided as to the validity of such payment as against a depositor who should stop payment of the check at the opening of business hours on Monday morning and contend that he did not give the check until Saturday afternoon in reliance upon the statute that it could not be legally presented until Monday. To obviate any such risk a draft of statute prepared by the General Counsel has been enacted in a number of states, not yet in Maryland, as follows:

"Nothing in any law of this state shall in any manner whatsoever affect the validity of, or render void or voidable, the payment, certification or acceptance of a check or other negotiable instrument or any other transaction by a bank or trust company in this state, because done or performed on any Saturday between 12 o'clock noon and midnight, provided such payment, certification, acceptance, or other transaction would be valid if done or performed before 12 o'clock noon on such Saturday; provided further that nothing herein shall be construed to compel any bank or trust company in this state, which by law or custom is entitled to close at 12 o'clock noon on any Saturday, to keep open for the transaction of business or to perform any of the acts or transactions aforesaid on any Saturday after such hour except at its own option."

At the same time, in your specific case, where your bank—Saturday afternoon not being a legal half-holiday in your county—is regularly and rightfully open for business from seven to ten on Saturday evenings, presumably receiving deposits and paying checks and the bank having the right, as all banks have, unless restricted by statute to fix its own banking hours, thereby creating a custom, known to and presumably acquiesced in by its customers, I think the depositor would have very slight ground for successfully contending that his check was unlawfully paid or certified on Saturday evening in violation of his rights. The case is different in this feature from that where a bank, while closed to the public, pays or certifies a check in an isolated case or a Saturday half-holiday. In such case, until

the point is specifically decided by the courts, there will be some uncertainty as to the validity of payment or certification on Saturday half-holiday where objected to by the customer and the enactment of the suggested form of statute would seem to be desirable in all states which have a Saturday half-holiday law.

Conveyance by National Bank

THE National Bank Act empowers the board of directors of a bank to prescribe by by-law the manner in which its property shall be transferred; and it is competent for the board of directors, who have heretofore prescribed by-laws requiring that conveyances of real estate must be signed by the cashier and the president or vice-president of the bank, to amend the by-laws so that conveyances of real estate held in a fiduciary capacity shall be signed by other specified officers.

From Minnesota:—It is our understanding that any conveyances of real estate made by a national bank must be signed by its cashier and its president or vice-president.

We wish to learn if the same rule would apply to conveyances made by the bank in a fiduciary capacity, or whether when conveying as a representative or guardian of an estate, a conveyance signed by a vice-president and secretary, or by the trust officer and secretary, may not be perfectly legal.

The United States Revised Statutes, Section 5136, gives a national bank power " * * sixth, to prescribe by its board of directors, by-laws not inconsistent with law regulating the manner in which * * * its property (shall be) transferred * * * ."

In an official book of "Instructions of the Comptroller of the Currency Relative to the Organization and Powers of National Banks," published in 1923, is contained a general form of by-laws submitted for adoption by a national bank, with the statement that the submitted form "may be modified in any manner deemed expedient, but not in conflict with law or the articles of association." This general form contains the following suggested by-law relative to the conveyance of real estate:

"All transfers and conveyances of real estate shall be made by the association, under seal, in accordance with the orders of the board of directors, and shall be signed by the president or cashier."

From the above it is seen that it is within the power of the board of directors of a national bank to prescribe by-laws regulating the transfer of real estate and specifying the officials by whom the conveyance shall be signed.

Presumably, therefore, the rule to which you refer "that any conveyances of real estate made by a national bank must be signed by its cashier and its president or vice-president," is a provision of your own by-laws, and, if the by-laws of your bank so require, this would apply, not only to conveyances of real estate owned absolutely by the bank but also to conveyances of real estate held by the bank in a fiduciary capacity, unless modified. If the signature of other or different officers is desired in the latter class of cases, it is within the power of the board of directors to amend the by-laws and specify the particular officers whose signatures shall be made.

Recent Decisions

DIGESTED BY THOMAS B. PATON, JR.

Assistant General Counsel

GUARANTY—NOT NECESSARY TO EXHAUST REMEDY AGAINST PRINCIPAL IN ORDER TO HOLD GUARANTOR ON UNCONDI- TIONAL GUARANTY—MARYLAND.

This was a suit to recover on a written guaranty executed by the defendants in favor of the plaintiff bank. The defendants were directors of the Kenai Company and the instrument sued on was an unconditional guaranty by the defendants of all indebtedness, secured or otherwise, owing or which might thereafter become owing, from the Kenai Company to the plaintiff bank, to the extent of \$60,000.

The defendants demurred on the principal ground that the complaint failed to allege that judgment had been recovered against Kenai Company and that execution had been issued thereon and had been returned unsatisfied.

Held, that the demurrer to the complaint was properly overruled. The guaranty was absolute and unconditional and was given to secure the payment and not the collection of money. It was therefore unnecessary for the plaintiff to exhaust its remedy before proceeding against the guarantors. *T. W. Platt, et al. v. National Bank of Commerce of Seattle, U. S. C. C. A. Fifth Circuit.* Not yet reported.

TAXATION—DEDUCTIONS ALLOWED IN AS- SESSING CAPITAL STOCK OF TRUST COMPANY — INDIANA.

Under the Indiana Tax Law 1919, Section 76, accrued interest on deposits alleged to be a bona fide indebtedness existing on March 1st, but not a reserve for taxes not alleged to be a debt then existing, has been held deductible from the gross value of a trust Company's capital stock in assessing it for taxation.

It has also been held that a leasehold is an interest in realty and hence an "ownership" therein and may be deducted within the meaning of this law which requires deduction of so much of the value of an investment in real estate by a trust company acquiring "ownership" therein as may be carried in its capital stock account. *Sims et al, State Board of Tax Commissioners v. Fletcher Sav. & Trust Co., Indiana, 142 N. E. 121.*

BANK TAXATION—DEDUCTION OF REAL ES- TATE FROM CAPITAL STOCK—DOUBLE TAXATION — OREGON.

The Citizens National Bank of Baker City, Oregon, filed a petition claiming that the method used by the tax assessor subjected its real estate to double taxation.

The statutes of the State of Oregon governing taxation of shares of capital stock and real property of banking corporations, including national banks, provide in part as follows:

Sec. 4253. "Real estate owned by such

ACCURED interest on deposits and investment in leasehold, but not reserve for taxes, held deductible in assessing capital stock of trust company in Indiana.

AN absolute and unconditional guaranty of all indebtedness was held given to secure the payment and not the collection of money. Hence it was not necessary to exhaust remedy against principal in order to hold guarantor.

A BANK was held liable for loss of contents of safe deposit box, where no watchman was retained, and keys were carelessly kept and strangers were admitted to vault.

WHERE a depositor has made alleged incorrect statements of his income, the Government can compel the bank to produce its books and testify in regard to his deposits and investments.

THE words "actual cash value of all real estate" in Oregon tax law mean assessed value of the real estate and not the amount invested therein.

THE fact that protest is unnecessary on a check does not bar recovery of fees.

THAT the drawer is possibly liable on lead pencil check does not prevent recovery by drawee from indorser bank.

WHERE a bank in Texas receives an item for collection at a distant point, "the very heart of the undertaking is that the receiving bank will select for the depositor a competent agent for him" and will not be liable for correspondent's default.

IT has been held by the United States Supreme Court that a collecting bank is negligent in accepting anything but money in exchange for check on distant drawee.

PAYEE of check with warning of precarious condition of drawee bank assumes risk by failure to promptly present.

bank and situate in this state shall be assessed and taxed as other real estate is assessed and taxed. The assessor shall determine the amount of the actual cash value of all real estate owned by the bank and shall deduct said amount from the aggregate amount of such capital stock, surplus fund and undivided profits, and the remainder shall be taken as a basis for the valuation of such shares of stock, etc."

The assessor placed a value of \$34,230 on the real estate. In determining the value of the shares of capital stock of the bank for the purpose of taxation, the assessor deducted the sum of \$34,230, the cash value placed on the real estate, from the sum of \$127,988.71, the aggregate amount of the capital stock, surplus funds and undivided profits of the bank. Taking the remainder, \$93,755, as the basis for the valuation of such shares of stock in the hands of the stockholders, the assessor then assessed the shares of capital stock at the total of \$70,315, which amounted to 76 per cent of the aggregate amount of capital stock, surplus funds and undivided profits after the assessed value of the real estate had been deducted.

Counsel for the bank contended that inasmuch as the bank invested \$49,400 of its capital stock in real estate and the assessor had deducted only \$34,230, the assessed value of the real estate, the difference, or \$15,170, entered into and was a part of the value of the shares of the capital stock assessed by the assessor upon that stock and to the extent of the sum last mentioned constituted double taxation.

Held, the language of the statute when considered in relation to other provisions of the statute relating to taxation, clearly indicated that the words, "actual cash value of all real estate," as used therein, were equivalent to and meant assessed value of the real estate and not the amount invested therein. It followed that the action of the assessor in deducting the assessed value of the real estate owned by the bank from the aggregate amount of capital stock, surplus funds and undivided profits, conformed to the statute. The contention of counsel based upon the facts stated left out of consideration the additional fact that the result obtained by the assessor after deducting the assessed value of the real estate was reduced 25 per cent, or \$23,440, considerably more than the amount of the value which it was claimed was doubly taxed. The result obtained by deducting the value of the real estate was not the value at which the shares of stock were to be assessed; on the contrary the statute directed that such result, which excluded the value of the real estate, should be taken not as a valuation of, but as a basis for the valuation of, the shares of stock subject to the provisions of law requiring all property to be assessed and taxed at its full and actual cash value. The method thus provided was intended to

and did prevent the real estate from being subjected to double taxation.

Savings National Bank of Baker City, Oregon, v. Baker County Board of Equalization. Supreme Court of Oregon. Decided Jan. 22, 1924. Not yet reported.

INCOME TAX—POWER OF GOVERNMENT TO COMPEL BANK TO FURNISH INFORMATION RELATIVE TO TRANSACTIONS HAD WITH ITS DEPOSITORS. SECTIONS 1308, 1210—A AND 1300, REVENUE ACT OF 1921, CONSTRUED—FEDERAL.

This was a petition filed by the Government under Section 1310 of the Revenue Act of 1921 asking the assistance of the court to require the First National Bank to furnish information as to transactions had by W. J. Hanlon and his wife with the bank involving deposits of money and investments. The bank refused to testify and produce its books and contended that it was protected from so doing by the Fourth Amendment of the Constitution, which provides against unreasonable searches and seizures. The Government contended that Hanlon and his wife had not made correct statements of their incomes and that the ledgers of the bank would be of material assistance to the United States in arriving at their true and correct incomes.

Held, that no question of search and seizure was involved and that the Government had the right to compel the bank, or any of its employees, to furnish the information desired.

United States v. First National Bank of Mobile. U. S. District Court for the Southern District of Alabama. Received Jan. 22, 1924. Not yet reported.

SAFE DEPOSIT BOX—LEASE IS CONTRACT OF BAILMENT—FAILURE TO USE ORDINARY CARE—MARYLAND.

Plaintiff recovered a judgment against the defendant for bonds which were lost after being deposited by plaintiff in a safety deposit box rented from defendant. The plaintiff proved that the defendant failed to use ordinary or reasonable care and diligence in the safekeeping of the box in question in that no watchman was retained, that the keys were kept carelessly, that strangers were admitted to the vault and the employees were careless in handling the keys of customers and in locking the boxes. Defendant took this appeal.

Held: The lease was in fact a bailment for hire and since defendant failed to use ordinary care and diligence in protecting plaintiff's property it was liable.

Security Storage & Trust Co. v. Jane B. Martin. Court of Appeals of Maryland. Decided Jan. 18, 1924. Not yet reported.

PROTEST FEES ON CHECK—IOWA.

The defendant gave plaintiff a bank check for \$460 which was presented and payment refused. The plaintiff had check protested, and brought suit on the check.

The court held that the protest fees could be recovered although protest was unnecessary, the check being an inland bill of exchange. **Marshak v. Fontana**, 190 N. W. 387.

FOREIGN EXCHANGE—DUTY AND LIABILITY OF BANK UNDER AGREEMENT TO REMIT MONEY TO A FOREIGN COUNTRY—NEW YORK.

"A good general statement of the degree of care a bank is bound to use in remitting funds abroad appears in *Scheibe v. Zaro*, 199 App. Div. 807, 192 N. Y. Supp. 433, holding that a banker who has received a sum in United States money, the equivalent of a sum in foreign money for remittance to a bank in a foreign country, is bound to use reasonable diligence in effecting the remittance. The court says: "Just what steps he (the banker) should have taken to ascertain whether the letter (containing the remittance) reached its destination, just what was a reasonable time to allow him under the conditions prevailing at that date to take these steps—these are questions of fact for the jury to determine. He was under such duty to use reasonable diligence to ascertain and report the nonarrival of the draft at the designated savings bank, and if he had performed this duty the plaintiff could thereupon have realized the then value of her 20,000 marks, and been saved the damage of subsequent deterioration."

For collection of recent cases and important note see *American Law Reports*, Annotated, Vol. 27, page 1488.

LEAD PENCIL CHECK—DRAWEE BANK HELD ENTITLED TO RECOVER FROM INDORSER BANK ON WARRANTY OF GENUINENESS—GEORGIA.

The customer of the Bank of Abbeville drew a check in lead pencil and for the purpose of delivery to the payee, it was entrusted to another who easily erased the payee's name, fraudulently substituted his own and cashed the same at the Farmers Bank. This bank thereafter indorsed the check and obtained payment from the drawee which had no notice of forgery and relied solely on the warranty of genuineness of the Farmers Bank as contained in the indorsement. The drawee Bank on discovering the forgery gave immediate notice and brought an action against the Farmers Bank to recover the money paid.

The defendant pleaded among other things, that there was negligence on the part of the drawer in drawing the check in lead pencil, that such negligence made the alteration readily possible, and that the loss resulting therefrom should be sustained by the drawer; that the Bank of Abbeville would have the right to charge the check to the account of the drawer, its customer, and would, therefore, have no right to proceed against the defendant Bank.

The court held that whether the loss should be borne by the drawer on account of his negligent manner in drawing the check, should not be determined in this case where the drawer is not made a party, and where the drawee is proceeding directly upon the warranty made to it by another bank. The court said:

"We are aware that it is held in a number of jurisdictions that a drawer of a check may be so negligent in the manner of drawing it that any loss from an alteration should be borne by him, but whether this should be the rule in Georgia, and, if so, whether the evidence in the instant case was sufficient to have made an issue for the jury as to such alleged negligence of the drawer (neither of which is now to be decided when the

drawer is not a party before us), we are satisfied that such an issue could not be pertinent here."

Farmers Bank v. Bank of Abbeville, 116 S. E., 204.

COLLECTING BANK HELD NEGLIGENT IN ACCEPTING ANYTHING BUT MONEY IN EXCHANGE FOR CHECK ON Distant Drawee—UNITED STATES.

The Federal Reserve Bank of Richmond accepted a check after several prior indorsements and sent it through in due course to the drawee bank. This bank charged the check against the depositor's account and sent an exchange draft to the Federal Reserve Bank. This draft was subsequently dishonored, the drawee bank having gone into the hands of the receiver. Malloy contended that the check was an unconditional order for the payment of money and that the Federal Reserve Bank was negligent in accepting anything but money in exchange therefor. In affirming the decision of the court below, the Supreme Court sustained this contention. **Federal Reserve Bank of Richmond v. D. J. Malloy** decided in February, 1924, by United States Supreme Court.

TEXAS BANK NOT LIABLE FOR DEFAULT OF CORRESPONDENTS

A correspondent bank to which another bank has forwarded a customer's negotiable paper for collection, is an agent of the owner of the paper and not of the forwarding bank and the correspondent's negligence does not render the forwarding bank liable. This decision is contrary to the decision of the United States Supreme Court and of those states which follow what is known as the New York Rule. The Texas Court said: "It is very desirable that decisions of our State courts should conform to those of the Supreme Court of the United States in questions of commercial law, and we would feel inclined to follow said court, unless we thought the weight of better reasoning was decidedly in favor of the opposite holding."

The court explained that, under the New York rule the undertaking of the receiving bank is an undertaking "to do the business," to collect the paper; "to do this thing, not merely procure it to be done." It would necessarily follow from such a holding that the bank at a distance to which the paper is forwarded is the subagent of the forwarding bank, to perform a part of that which it had contracted to do. But the receiving bank should be charged with no greater burden than it assumes and as was in the contemplation of the parties when the paper was deposited for collection. The court said "The person leaving the paper is aware that the bank cannot collect it through its personal agents and employees. * * * the ordinary exchange charge is so small, in comparison to the service rendered and the liabilities assumed by the bank if it be held responsible for the acts and conduct of its correspondent bank beyond the measure of care required in selecting a suitable correspondent. * * * Here the very heart of the undertaking is that the receiving bank will select for the depositor a competent agent for him, and will with dispatch forward the paper to that agent for collection. **Tillman County Bank of Grandfield v. Behringer**, 257 S. W. (Tex.) 206.

An Owner's Opinion

In April, 1923, the following questions were addressed to The Gotham National Bank of New York, relative to the merits of Terra Cotta used in the construction of its 24-story building on Columbus Circle, New York. The answers received are given below, opposite the questions:

1. What is your opinion of Terra Cotta as a building material for banks?

Answer: Unexcelled from an economical viewpoint embodying architectural beauty, cleanliness and stability.

2. Do you regard the fact that your bank is built of Terra Cotta as a good advertisement for you?

Answer: Decidedly so.

3. If you were building a new bank would you use Terra Cotta?

Answer: Yes.



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bus Circle, New York City, Sommer-
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Hundreds of other testimonials from all parts of the country contain similar endorsement of the results attending use of Terra Cotta in the construction of leading bank buildings. Representing the Terra Cotta Industry at large we can assist you and your architects with necessary information. Address:

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19 West 44th Street
New York, N. Y.

When writing to advertisers please mention the American Bankers Assn. Journal

Trust Companies

(Continued from page 577)

"So have in mind that your auditors pursue with that refinement the matter of dividends, interest and rent.

"In connection with the disbursement from an estate, be it income or principal, of course you will first look to the will or trust indenture to see what payments may be made, and then have them made within your authority. If you, as trustee, disburse funds that you had no right to disburse, the loss does not fall on the estate, should not fall on the estate, if you make a mistake; it is your mistake and your own institutions are bound to assume responsibility when the items are questioned.

"There is no disagreement in any court decision I have ever seen where the correctness of a disbursement was adjudicated, and if it was improperly made that did not fall upon the trustee—personal or corporate.

Life Tenant and Remainderman

"THERE are a number of items that our auditors do not adjust with precision unless they are first trained to do so. One of the items is the matter of stock dividends. Where an estate holds shares and the corporation declares a stock dividend, the income goes to a life tenant, the principal is held for remaindermen in the future. How much of the stock dividend goes to the life tenant, how much to the remaindermen?

"You must know the principles, so far as trusteeships are concerned, that under the distribution of stock dividends. Trustees cannot compel corporations not to declare stock dividends, but corporations declare them regardless of who owns the shares. But when you as a trustee receive a stock dividend, at your peril do you credit it all to principal or all to income. You have got to draw a distinction. So much of the dividend as represents earnings during the trusteeship goes to the life tenant, and what remains is a credit to principal.

"When dividends come in, be they cash or in any other extraordinary form, again your auditor must distinguish. If it is not a dividend out of current earnings of the corporation, you cannot credit it to the life tenant or the income account. You must distinguish between principal and income again. If the dividend be a large one, so that it would represent a disbursement of earnings accrued prior to the trust, as well as earnings subsequent to the trust, you are bound to divide it at that point.

"You say, 'Well, we are not able to do that.' Of course, you are not—without inquiry. It is up to you, as trustees, to ascertain the facts as to earnings involved in such an extraordinary dividend and to divide it accordingly. Sometimes it takes a month to find out what the facts are on which to make the division, but we do it.

"There is a thing that you think I am a bug on. That is premiums and discounts on trust investments. I think you are all converted that you are bound to adjust premiums on bonds you buy at a premium, by writing off a fair amount each year, so that at maturity the bonds will stand at par.

"In New York, where most of the cases are that decide the question (I believe there

are about forty) the courts tell you that you have got to do it. In a half dozen other states where the question has come up, the courts now say, 'You must do it.' There is one exception, and that is Massachusetts. It follows the old rule that dividends, if they are in cash, are a credit to income. That goes back in turn to England.

"But today, when our business has become more scientific and when you have to be more exact than our fathers were, you will wake up to that fact that you cannot ignore the proposition.

"In the matter of adjusting discounts, I know I am alone here in standing for that proposition. When you buy a bond at a discount, you buy it on an income basis. A bond table will show you that the accruing discount is taken as a part of the earning of that investment. You are buying it on a basis. If you do not credit your income with the coupon plus the accruing discount, you are not doing right.

"FIFTY years ago the courts with all trustees shut their eyes to the matter of adjusting premiums. They gave all sorts of excuses—'Oh, you pay a premium for a bond because you want to make it extra sure.' We investors know that is nonsense. After twenty-five or thirty years of disturbed sort of decisions on the matter of adjusting premiums, the courts have finally come through and recognized the principles on which the investment is made. They say, 'Yes, the premium must be written off against the coupon collections, else you will impair the principal of your estate.'

"Of course you will. Suppose you make ten investments in succession in a long-time trust, and you pay ten points premium on an investment every time you make it. If you then absorb the premium without adjusting it, ten times ten makes 100. Where would you get off in accounting with the remaindermen on the basis of accounting like that?

"The courts have awakened to it. They say now, 'No, the trustee may not ignore the matter of the adjustment of premiums.' Of course, until lately we trustees did not invest in discount bonds, but with the shock of war and Government bonds going down to eighty-five, we all made hundreds of millions of dollars of investments at discounts and those discounts cannot be forgotten."

A Scientific Set-up For Trust Investments

THE best solicitor for obtaining new business for trust companies is a "scientific set-up for the making and handling of trust investments," A. F. Young, vice-president, Guardian Savings and Trust Company, Cleveland, Ohio, asserted in discussing the "Care of Trust Investments." Venturing the statement that about 75 per cent of trust business was sold because the prospect is convinced that the trust company has extraordinary facilities for making investments and keeping them safe, Mr. Young declared that "in my judgment the time has gone by when a trust company has any right to handle its trust investments according to the ideas of its trust officers, or even according to the judgment of a trust committee unsupported by accurate data, scientifically compiled and applied to each particular trust."

After having made an extensive survey of a number of trust companies to ascertain how these investments were made, Mr. Young said that he was led to the conclusion that a special division manned by experts and maintained for the sole function of continuous analysis of trust investments should be organized.

Describing this proposed division, Mr. Young said:

"This can best be visualized by noting the process of a new estate from its inception. First of all, the department maintains a file on every company whose securities are held in the trust department. When a new trust comes in, whether it be a living trust or a trust created by will, a complete list of the securities is furnished to the securities analysis division. There the securities are classified and card indexed as follows: Prime investments, high grade, medium, speculative, worthless.

"This classification fixes the degree of supervision which must be given to the securities and determines the frequency of their review. The worthless securities are, of course, charged off. This set-up alone gives pretty fair protection if there were no other classification, but the work does not stop there. The securities are also classified and card indexed, for example, as follows: Steel and iron, rubber, oil, rail, public utilities, banks, mining, tobaccos, miscellaneous.

"This latter classification insures, for example, that general conditions affecting railroads will be applied to all securities of that class held by the trust department.

"If there are securities in the trust which have not heretofore been analyzed, information is at once gathered and the files brought up to date on the issuing company. Then, as the next step, a complete chart or layout of the trust is created, which shows each security according to its classification, its Moody rating, its present market value, its interest or dividend rate, the per cent of the trust which it constitutes and the total annual income from the securities.

"At the bottom are the totals and summaries. You will note that this is a rather complete picture of the estate.

"In this form the securities analysis division brings the trust to the vice-president in charge of investments. By him it is taken to the trust investment unit, so-called, which is composed of the vice-presidents of the trust department, the assistant trust officer in charge of the particular estate involved, and three members of the securities analysis division.

"Here the trust receives the application of the particular facts and conditions known only to the officer in direct charge of the trust. With this actual picture of the estate before it, and with definite knowledge as to the condition of the estate, as to the beneficiaries and their needs, the status of the trust for taxation, and all other intimate details, the trust investment unit makes its findings.

"For example, the analysis of a recent new trust showed distribution of risk of principal as follows: Bonds, 20 per cent; stocks, 80 per cent. The recommendations of the trust investment unit were that the trust officer should work toward an ultimate distribution as follows: Bonds, 50 per cent; ground rents, 17 per cent; stocks, 33 per cent.

"It was agreed of course that this goal could only be reached over an extended period of time and that sales and purchases should only be made at favorable opportunity. It must be understood also that the peculiar condition of the trust influenced to some extent the conclusions as stated.

"Having then determined the general program to be followed with reference to the trust investment, the trust investment unit makes its recommendations for immediate sales and purchases, if any.

"If these general and special recommendations are approved, then a work sheet is made out which shows constantly just what progress is being made toward shifting the securities and reaching the ultimate goal of distribution, as prescribed by the trust investment unit. Then the conclusions of the trust investment unit are written into formal minutes which go to the trust committee, composed of seven members of the bank's directorate.

"There is thus laid before the trust committee this actual picture of the estate; the action of the trust investment unit which represents the recommendations of the trust officers and their analytical experts and their reasons therefor. With these, together with detailed information on each security, brought to the meeting from the files of the securities analysis division, and available for reference if a director requests it, the trust committee obviously is able to perform its duties intelligently, accurately and quickly and to reach a conclusion based on facts, not on general knowledge, rumor or hearsay."

In opening the discussion of "Insurance Trusts," Judge Thomas C. Hennings, chairman of the Committee on Insurance Trusts and vice-president of the Mercantile Trust Company, St. Louis, recited that 90 per cent of the proceeds of insurance policies paid to beneficiaries is lost within five years after the money is received. The objective sought by both the insurance men and the trust men, he said, was to safeguard the proceeds of insurance policies. A recent questionnaire sent out to 2200 trust companies disclosed that only about 150 companies are now handling these trusts.

Describing the different kinds of insurance trusts, Judge Hennings said: "There is the passive trust, a trust created by the donor or the grantor, as the case may be, in which he deposits the insurance policies with the trust company, the duty devolving upon him to pay the insurance premiums as they become due. The policy is assigned to the trust company, and the trust company collects the proceeds and uses the proceeds for paying inheritance taxes or debts or any other purpose which may be provided in the trust agreement. The balance goes to certain designated beneficiaries.

"This is what might be called purely a voluntary trust. There is no duty, practically, upon the trustee other than that of collecting the proceeds of the policies and paying them out at once.

"The unfunded trust is a trust which provides that the trust company shall collect the proceeds of the policy. It is not a duty upon the trustee to pay the insurance premium or see that the payments are made, but the proceeds shall be held by the trust company for a period of time, the income

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to be paid to certain beneficiaries after termination of the trustee.

"Then there is the funded trust, which provides for the deposit by the grantor or the donor of securities, the income from which is to be paid to the insurance company as insurance premiums, the proceeds of the policies payable to the trust company and paid out in accordance with the terms of the trust.

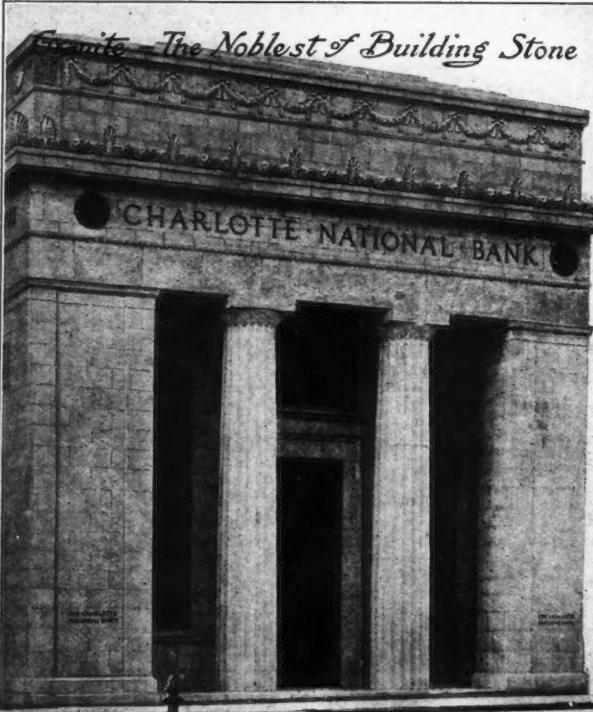
"There is quite a responsibility upon the part of the trust company in accepting a funded trust. In the event the income received from the securities is not sufficient or adequate to pay the premiums when they become due, there must be a provision in the trust to the effect that the donor shall make good any deficiency, or that in the event he is unable to do so, the securities may be sold to make good such deficiency, and then,

of course, the responsibility is upon him to pay the premiums as and when they come due.

"In the event he should fail to pay the premium when it becomes due, unless there be a default in the policy, why, of course, the result will be very serious."

Judge Hennings said that, while there was a feeling on the part of some insurance people that the trust companies were encroaching upon their field, he thought there was a line of demarcation in that the duty of the trust company begins where that of the insurance company ends. He advocated the use of the simplest form of contract possible and deprecated the raising of hopes that taxes might be minimized through the creation of trusts as a selling point. However, he pointed out that irrevocable trusts are not subject to inheritance taxes. He admitted

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GRANITE

that the legal phases involved in the creation of trusts are numerous and urged a careful examination of policies deposited with banks. He expressed the belief that it was not advisable for trust companies to have policies assigned to them unless they were those in which the beneficiary has a vested interest.

In conclusion, Judge Hennings stated that he believed "our great field in developing this line of business is to work in cooperation with the insurance companies."

There should be no conflict between the interests of the life insurance companies

and the trust companies, Graham C. Wells, president of the National Association of Life Underwriters, told the conference, in appealing for the continued cooperation of the two groups. He said that there naturally was a close bond of common interest because the insurance companies are agencies creating estates, while the trust companies are the specific agencies for the administration and distribution of estates.

To indicate the possibilities of new business which the trust companies might develop, Mr. Wells stated that there were fifty-five billion dollars of old line life insurance

in force in the United States. Last year life insurance to the amount of \$11,700,000,000 was written.

Methods in Michigan

METHODS used in Michigan—where a trust company may not do a banking business—to solicit trusts and wills were described by John A. Reynolds, assistant secretary, Union Trust Company, Detroit. By means of full page advertisements run in the daily newspapers telling a story of hardship, of want, suffering or loss that came to the beneficiaries of an insured because of lack of protection, the trust company impressed the public with the need of life insurance. The insurance agents, appreciating the aid the company gave to them in soliciting their business, directed the insured to the trust company. "Within the past three years, I could safely say that our insurance trust business has increased over 500 per cent," Mr. Reynolds said.

The experience of the Union Trust Company of Chicago, R. J. Darby, trust officer, of that company, told the convention, has shown that writing of insurance trusts leads into a large number of other trusts.

How the trust companies in Buffalo showed the advantage of the life insurance trust through the moving pictures was recounted by Clinton Davidson of Buffalo. The picture was exhibited in the high schools, and an essay contest arranged through the Superintendent of Education. In a little booklet, which gave the rules of the contest, were a number of questions which the contestants were urged to ask their parents. In this way the subject was widely discussed in the homes.

The suggestion was made by Albert H. Yost, assistant secretary, Phoenix Mutual Life Insurance Company, Hartford, that in the revocable trusts a proper provision allowing the insurer during his lifetime to take advantage of the benefits and privileges in the policy without the consent of the trustee be included. This would harmonize the provisions of the policy and reduce the expense of handling it, he said.

Another change in the trust was proposed by Julius C. Peter, assistant to the president of the Detroit Trust Company. Pointing out that the usual form of trust agreement provides for the deposit of the policies by the insured with the trustee, who agrees to collect and invest the proceeds in accordance with its terms, Mr. Peter suggested a modification of the investment clause by the addition of an express authorization to the trustee permitting the buying of any of the assets from the estate. This, he said, renders the needed cash available to the estate with the least tax liability.

In response to questions, the opinion was expressed that the funded life insurance trust is not legal in New York State. Judge Hennings, asked how the trust companies realized sufficient funds to pay the full premium on the original insurance when the securities deposited failed to produce adequate revenues, stated that a provision was incorporated in the instrument stipulating that if the donor should fail to make good the deficiency within 15

days the trustee might sell a proportion of the securities for that purpose.

The new Mellon tax bill will change the law with reference to taxation affecting insurance trusts, Col. F. H. Fries, president, Wachovia Bank and Trust Co., Winston-Salem, N. C., predicted. After conferences with officials of the Treasury, Col. Fries reported that the government had its face set determinedly against any escape from the income tax by reason of voluntary trusts. "If a voluntary trust, whether an insurance trust or not, is revocable so that the man who makes it can retake it, the government, I believe, is going to compel that premium to be included in his income tax returns," Col. Fries said.

"The insurance trust is valuable in that a man can set aside a certain fund in the hands of a trustee, the income of which can be paid to the insurance company for a large amount of insurance, so that he can sometimes double his estate and even treble it if he is a young man as he can in no other way. But, if he wants to escape taxation, he has to make over to the trustee and deliver certain securities under the terms of the trust by which the premium is provided for and by which he himself is relieved of any future benefit derived from it."

In answer to the question as to what extent an insurance trust is likely to be affected by the claims of creditors, Col. Fries expressed the opinion that, if the estate was solvent at the time the trust was made, it could not be attacked. In the case of revocable trusts, Judge Hennings said he believed it might be reached by creditors.

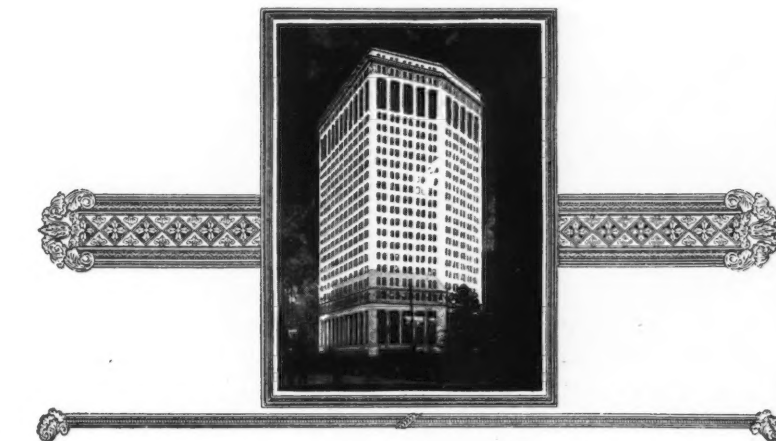
A representative of the Cleveland Trust Company announced that the constitutionality of this section of the Mellon bill would be attacked on the ground that Congress can not declare what is not income to be income.

Recognition of the part that woman is playing in banking was given by the conference when Miss Marjorie Schoeffel, assistant secretary, the Plainfield Trust Company, Plainfield, N. J., outlined how trusteeships under voluntary trusts may be obtained. "The greatest need of the trust company today as I see it," said Miss Schoeffel, "is to familiarize the public with the personal, intimate service it can and does render."

In telling of the value of officers and executives naming trust companies as executors of their wills, C. F. Zimmerman, trust officer, Lebanon County Trust Company, Lebanon, Pa., said that the action of one of the bank's wealthiest directors in naming it sole executor and trustee of his estate "had done more to place our trust company upon a solid basis than years and years of advertising or indirect effort would have accomplished for us."

Compensation Charged

THE high lights of a questionnaire sent out to trust companies to ascertain the compensation gained in the handling of life insurance trusts were recounted to the conference by Leslie G. McDouall, assistant trust officer of the Fidelity Union Trust Company, Newark. Declaring that the in-



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quiry had revealed a great difference of opinion as to what constituted a fair and reasonable charge for this form of trust service, Mr. McDouall said that there were manifestly a number of varying factors in different parts of the country.

The responses of the banks to the first question: "What charge do you make for the receipt of insurance policies which are to be held and the proceeds collected upon death and paid out in accordance with the terms of the trust?" numbered 322.

"No securities or cash are attached to this form of trust, which is known as the unfunded trust," he explained. "Seventy-five of this number report that they make no charge upon the acceptance of an unfunded trust. Six report that they make no charge upon the acceptance, but make a charge on

revocation, varying from \$10 to \$50. Two report that they make an annual charge of \$5 to \$10. Thirteen report that they charge an acceptance fee varying from \$5 to \$50. Another reports that they charge an acceptance fee of one-tenth of 1 per cent of the principal. Another reports one-quarter of 1 per cent of the principal. Three report that they make nominal acceptance charge; 212 report that they have had no experience in this form of trust service.

"The second question was: 'What charge do you make for the receipt of insurance policies with securities or cash or both attached, which are to be held and proceeds of policies collected upon death and entire trust paid out in accordance with its terms?'

"We have replies to that question totaling 318. Fifty-seven make no charge upon ac-

National Bank of Commerce in New York

Established 1839

STATEMENT OF CONDITION, DECEMBER 31, 1923

RESOURCES		LIABILITIES	
Loans and Discounts	\$290,668,790.39	Capital Paid up	\$25,000,000.00
Overdrafts, secured and unsecured	156.52	Surplus	25,000,000.00
United States Securities	22,838,434.36	Undivided Profits	13,624,312.45
Other Bonds and Securities	9,340,220.15	Dividends Payable Jan. 2, 1924 (Regular 3% and extra 4%)	1,750,000.00
Stock of Federal Reserve Bank	1,500,000.00	Dividends unpaid	9,438.50
Banking House	4,000,000.00	Deposits	448,905,768.88
Cash in Vault and due from Federal Reserve Bank	46,326,607.41	Reserved for Interest, Taxes and other Purposes	4,230,834.55
Due from Banks and Bankers	8,320,267.75	Unearned Discount	1,308,431.30
Exchanges for Clearing House	136,142,921.33	Acceptances executed for Customers	27,973,213.74
Checks and other Cash Items	2,617,458.15	Acceptances sold with our endorsement	2,047,906.54
Interest Accrued	1,139,666.52	United States Securities Sold under Repurchase Agreement	9,925,688.90
Customers' Liability under Acceptances	26,955,383.38		
United States Securities Sold under Repurchase Agreement	9,925,688.90		
	\$559,775,594.86		\$559,775,594.86

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GEORGE E. ROOSEVELT
CHARLES B. SEGER
JOHN G. SHEDDVALENTINE P. SNYDER
HARRY B. THAYER
JAMES TIMPSON
STEVENSON E. WARD
THOMAS WILLIAMS

ceptance. Three make no charge upon acceptance, but on revocation charge \$10. Eight have a minimum acceptance fee of \$5 and a maximum of \$75. Others charge one-tenth of 1 per cent or one-quarter of 1 per cent, upon acceptance. Others have no fixed rates. Two hundred and fifteen reply, 'We have had no experience.' Two charge the living 'trust rates.'

"Question three was: 'What are your charges for the receipt and disbursement of income in connection with the unfunded trust?'

Wide Range in Rates

"FROM 363 replies the committee found that the rates graduate from one-half of 1 per cent of the income up to 10 per cent. The majority of those replies, seventy-

six in number, say that their charge for the collection of income is 3 per cent. Another bank replies, 'Two dollars per \$1,000 securities on deposit.' Another bank, 'Five per cent for the first ten years and 3 per cent thereafter.' One-fifth of 1 per cent of the principal per annum; six-tenths of 1 per cent of the principal per annum; no fixed rate; depends upon the size of the trust, report four of our member banks. Two banks report a minimum annual fee of \$25 a year. One hundred and forty-seven report no experience.

"The fourth question was something to this effect: 'What charge do you make for the disbursement of income when it is used in the payment of life insurance premiums?' Your committee did not attempt to tabulate those returns because there seemed to be

some misunderstanding upon the part of the member banks reporting.

"The fifth question was: 'What and when is the charge for the disbursement of the principal made? Is this charge the same in the case of the funded and unfunded form of trust?'

"The first figures are based upon the termination of the trust. Three banks report that they make no charge. Ten banks report one-half of 1 per cent. One bank reports one-half of 1 per cent to 1 per cent. Twenty-three banks report 1 per cent. Six report 1 to 2 per cent. Two report 1 to 5 per cent. Those rates vary on up until we reach the 5 per cent rate, thirteen banks stating that they make that charge. One bank replies 1 per cent on the first \$25,000, one-half of 1 per cent on the excess.

"The following figures are all based upon the acceptance or other than on the termination of the trust: One per cent on receipt and 1 per cent on disbursement; 1½ per cent on receipt; the legal rates; twenty-four have no fixed rates; six make no charge whatsoever; one replies, 'Whatever the court might allow'; two reply, 'Would try to follow the schedule of fees suggested by the Trust Company Section'; 185 report, 'No experience.'

Educational Plans

AS a striking method of educational approach, the Detroit prize plan was presented to the conference by Clinton F. Berry, advertising manager, Union Trust Company. Deciding that the most effective way of impressing the public consciousness with the value of trust company service might be through the instrumentality of the younger generation, the bank adopted the plan of establishing five \$1,000 scholarships to any American college or university to be awarded annually to the authors of the five best essays on some selected topic pertaining to the services rendered by trust companies. "The Selection of Investments" was the subject chosen for the 1924 contest.

Other methods used by institutions in "Creating a Proper Understanding of the Status of Trust Company Service" were brought to the attention of the conference. F. Dwight Conner, manager, Business Extension Department of the Illinois-Merchants Trust Company, Chicago, urged trust companies to make their advertisements newsy, interesting and educational, rather than a mere presentation of their resources and officers.

The outline of the Chicago Trust Company Research Plan, which offers a series of prizes for research "relating to business development and the modern Trust Company and allied subjects" was given to the conference by Willard F. Hopkins, secretary of that institution. He stated that no trade mark had been placed on the idea and it was hoped other trust companies would make liberal appropriations for prizes of this nature.

The firm conviction as to the merits of advertising as a producer of business for fiduciary service was expressed by Francis H. Sisson, chairman of the Publicity Committee of the Trust Company Division, and vice-president, Guaranty Trust Company, New York.

"Granted that there are something like 90 per cent of our population who could use fiduciary service in one form or another profitably, and granted that our newspapers are the great purveyors of information and opinion to American readers, it seems to me that it is simply a problem of phrasing our message in such an appealing form that we must create business for the fiduciary service that we render, because it is such an appealing message, self-interest is so clearly involved in every note of it, that I can't possibly conceive how any trust company which has used advertising intelligently in its own community could have failed to have secured a response which much more than warrants the expense," he said.

"Only last week in my own institution, we closed a piece of business with a man who came in with an advertisement in his hand, that would pay our entire advertising appropriation for fiduciary service for the whole year, and that is true in the experience of many trust companies all over the country."


A report on the national publicity campaign was rendered to the conference by Fred W. Ellsworth, vice-president, Hibernia Bank and Trust Company, New Orleans. He announced that sufficient funds had been assured through the subscriptions of 360 trust companies to go ahead for the fourth year in educating the American people to the benefits of trust services. If the trust companies in the various cities will cooperate by reproducing the advertisements published in the national weeklies in the local newspapers, Mr. Ellsworth stated, the most fruitful results might be obtained by getting business in a large way for the trust companies of America.

The possibilities of the radio as an instrumentality for acquainting the public with the service of the trust companies were reviewed by William H. Baden, assistant trust officer, Washington Loan and Trust Company, Washington, D. C. Invited by a radio broadcasting station to give a series of informative talks on trust company service, the bank presented fifteen-minute lectures with titles that would appeal to the popular imagination. "It was amazing to us, the prompt and immediate response to those lectures," he stated. "The number of inquiries far surpassed anything that any of us had expected to receive. And we have actually done an amount of business which has been profitable." One of the strong points of the radio is that the lectures are sandwiched in between light entertainment and that they reach the women, who are not wide newspaper readers, Mr. Baden stated.


The cultivation of the young lawyer as a means of developing business was touched upon by William G. Littleton, vice-president, Fidelity Trust Company, Philadelphia, and by Henry F. Whitney, trust officer, Empire Trust Company, New York.

A suggestion for the development of new business was made by W. T. Shilling of the Corn Exchange National Bank, Philadelphia. He recounted that his institution had obtained very good results when the credit situation became rather complex and the banks credit limited in taking the force of new business men and

"Mercantile Service"




Departments: Banking Bond Corporation Real Estate Loan
Real Estate Public Relations Safe Deposit Savings Trust



Nine highly specialized, fully equipped, carefully managed departments insure a complete and comprehensive service. Our long, close association with St. Louis business conditions enables us to render valuable assistance to banks, trust companies and individuals having important St. Louis business to transact.

Mercantile Trust Company

Member Federal Reserve System
EIGHTH AND LOCUST



Capital & Surplus
Ten Million Dollars
-TO ST. CHARLES
SAINT LOUIS

putting them on trust company business. In one month, five men brought in 53 wills, while one man secured about \$317,000 in January in trust funds. When the trust company gets loaded up on wills, Mr. Shilling stated, a drive is started on safe deposit box or on savings accounts, so that a rotation in the direction of effort brings in a material volume of business.

The question of just what services are covered by the charge made by a trustee acting under a testamentary trust was raised by Judge H. L. Standeven, vice-president, Exchange Trust Company, Tulsa, Okla., who asked if the fee of either 5 per cent of the income of the trust or one-half of 1 per cent of the corpus of the trust payable either annually or semi-annually

and a final distribution of 1 per cent of the corpus upon final distribution, covered extraordinary services in the administration of the trust and in the management of estates. The customary charges are wholly inadequate in some cases, he asserted, and naturally has raised the question of just what a bank should tell a client when he inquires as to what the cost will be.

The conference failed to develop a set of standard charges that would be applicable to all sections, but it was generally agreed that cost plus a reasonable profit should be the basis of charges.

The conference was urged to use its influence to combat wasteful municipal government.



Hotel Poinsett, Greenville, S.C.

How To Get A Modern Hotel for Your Town

What does it take to start a Modern Hotel in your town? It takes the IDEA and the ACTION of one man—a civic leader; a banker!

It takes but one man to set the idea on foot and the Hockenbury organization to carry it through!

The Poinsett Hotel, of Greenville, S. C., shown above, was, in the beginning, the idea of one man!

Will YOU be the man to see your town stand still for the lack of a Modern Hotel? Set the idea on foot!

If YOU are the man, ask us to place your name on our list "B-3," to receive each month a copy of *The Hotel Financialist*, a journal devoted to community-financed hotels.

It's sent gratis to members of the A. B. A.

The Hockenbury System Incorporated
Penn-Harris Trust Bldg., Harrisburg, Penna.

The Corporation for Northwest Relief

SPEAKING at the preliminary organization meeting of the Agricultural Securities Corporation, the \$10,000,000 company for the extension of aid to the Northwestern district, where the fall of wheat and other factors have caused acute business distress, Secretary of Commerce Hoover said: "This is an agricultural rather than a banking proposition. The measures to be undertaken are not primarily to launch an expedition for the rescue of the banks. They are in the interest of the farmers and through them of the general public. * * * It is intended to stimulate self-help rather than charity."

The capital subscriptions allocated were as follows: New York, \$5,000,000; Chicago, \$2,000,000; Minneapolis, \$1,000,000; Pittsburgh, \$600,000; Cleveland and Detroit, \$700,000 each. The amount required was oversubscribed.

At a meeting of the temporary directors

in Minneapolis on Feb. 25, Arthur P. Kemp of Auburn, Ind., was elected president of the corporation. He was formerly with the First National Bank of Chicago and has been the president of the Auburn Automobile Manufacturing Co. The list of officers as given by the *Minneapolis Journal* follows:

C. T. Jaffray, president, First National Bank, Minneapolis, chairman of the board of directors.

Alexander Legge, Chicago, president of the International Harvester Co., vice-president.

J. R. Howard, Chicago, former president of the American Farm Bureau Federation, vice-president.

M. O. Grangaard, Minneapolis, assistant to the vice-president of the First National Bank and former secretary of the Northwest Agricultural Loan Agency of the War Finance Corporation, vice-president in charge of North Dakota.

F. B. Stiles, Watertown, S. D., vice-president of the First National Bank, vice-president in charge of South Dakota.

R. S. Hume, Minneapolis, assistant cashier of the Northwestern National Bank, secretary-treasurer.

The following executive committee members were elected: John McHugh, New York; Ralph Van Vechten, Chicago; C. H. Prince, St. Paul; Charles Donnelly, St. Paul; Ralph Budd, St. Paul; E. W. Decker, Minneapolis; P. J. Looman, Minneapolis; C. C. Webber, Minneapolis; C. T. Jaffray, Minneapolis; J. E. Howard, Chicago.

The directors elected were: John McHugh, New York; C. E. Mitchell, New York; Clarence Woolley, New York; Ralph Van Vechten, Chicago; Alex Logan, Chicago; R. P. Lemont, Chicago; J. P. Oleson, Chicago; J. R. Howard, Chicago; H. M. Bissell, Hartford, Conn.; William J. Gray, Detroit; O. C. Fuller, Milwaukee; G. H. Prince, St. Paul; C. P. Brown, St. Paul; Ralph Budd, St. Paul; Charles Donnelly, St. Paul; J. F. Reed, St. Paul; G. B. Coulton, Cleveland; E. J. Weiser, Fargo; J. G. Bassett, Aberdeen; E. W. Decker, Minneapolis; C. T. Jaffray, Minneapolis; F. J. Loeman, Minneapolis; F. B. Wells, Minneapolis; C. C. Webber, Minneapolis; Charles E. Torkins, Burlington, Iowa; H. E. Byram, Chicago; S. S. Stevenson, Great Falls.

Banker Hikes 1,300 Miles

EARLY in February, Harry Logan, cashier of the Home State Bank of South Milwaukee, walked into Milwaukee and completed a 1300-mile winter hike, which had taken 60 days.

"I had tuberculosis," said Mr. Logan in describing his experience. "In 1919 I was in an automobile accident and suffered a fractured skull. This aggravated my condition. I was a sick man, near death several times.

"As I got no better, my physicians advised in May, 1923, that I take to the open and try to fight my way back to health, so I went to Prairie Queen farm, 15 miles southeast of Yorkton, Saskatchewan, Canada, and started my comeback. It was slow work at first. I tried carrying wood, but a half hour's work was exhausting and I could carry only a few sticks at a time. Gradually, however, I increased the load and the time spent in working. By November I was able to do a farm laborer's work.

"Then I decided to try to hike back to my home, feeling that if I could make the hike I could go on back to my bank work.

"I started from the farm in Canada Dec. 13 and arrived in Milwaukee at noon, Feb. 5, though I had cold, bad weather all the way. From Strandquist, Minn., to Thief River Falls, Minn., it was from 30 to 40 degrees below zero all the way. I walked that 33 miles in one day with the aid of a stiff north wind at my back. On Christmas day I froze both cheeks coming from Portage La Prairie. Oh, it was cold but I did not accept a single ride. It was a pure hiking trip and I enjoyed it all the time. I had some unpleasant experiences, but they only added to the zest of the trip after they were safely surmounted."

Trust Departments in Small Communities

By WOOD NETHERLAND

Assistant Cashier, First National Bank,
Fort Smith, Ark.

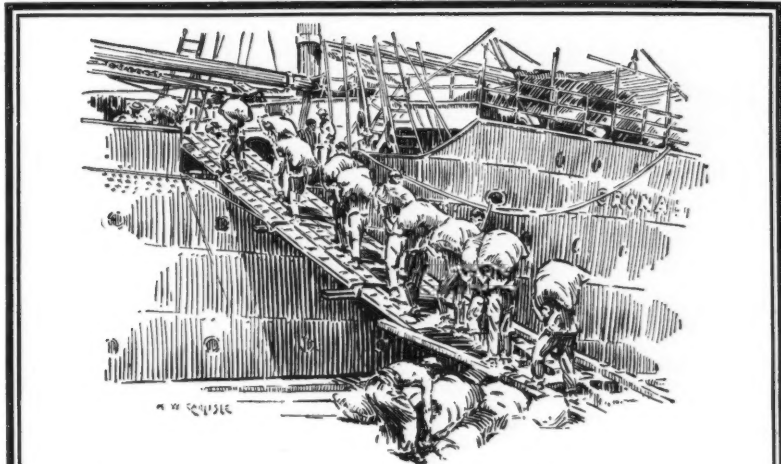
THE vital factor in the progress of our banking administration has been the willingness on the part of most members of our fraternity to properly record their experiences in all features of their work, and the good sense that the remainder of the profession has had to study and profit by these experiences. The exercise of fiduciary powers by national banks has been no exception to this rule.

One reason for the slow development of trust departments in smaller communities has been the impression held by bank officers themselves, as well as clients, that only large estates needed expert administration—when the facts are that smaller trusts are as much in need of competent management as larger ones. Particularly is this true when a decedent suddenly leaves a business of various ramifications or a receivership looms unexpectedly with very little margin between the assets and liabilities. Then, especially, a trained fiduciary is necessary in order that court costs and expenses incident to the administration may not be disastrous, costs which to a large estate would be insignificant, but might easily render insolvent one of smaller size.

Great Problem Is Making It Pay

THE one great problem of managing a trust department of small proportion—is to make the expense involved in keeping with the profit. The limited field of operation in a small community almost prohibits specialization and the only solution to this is that officers charged with the operation of the trust department must also assume at least some general administrative duties in connection with commercial banking. Trust business is developed slowly and its results—though in the long run commensurate—are sometimes so intangible that it is looked upon as an unproductive proposition. Such a department can be made economically combined with the new business department—which would also embrace the advertising department, and in extreme necessity of cost curtailment could also include the credit department. It will be found that this arrangement will work very satisfactorily until such time as the volume increases sufficiently to justify specialization.

I am a great believer in advertising. Newspaper space, judiciously used, pays large returns; but the development of a trust business in a small community, the limited source of profit it offers, and the very personal relationship it bears to its clientele, has led me to the absolute conclusion that personal solicitation is substantially the only successful, economical way of building such a department. I would supplement this personal solicitation with one comprehensive, plainly written pamphlet at a time, explaining the advantages of a corporate fiduciary. I would



Your Customers' Exports

IF your customers finance foreign transactions through the medium of drafts with or without documents attached, the collecting banks constitute a most important factor in their arrangements.

This Company handles an unusually large volume of collection business. Its service extends to all foreign countries, through its own branch offices in Europe and carefully selected correspondents throughout the world.

We invite you to make use of the facilities of our Collection Department.

Guaranty Trust Company of New York

first interview the attorneys, explain to them in detail the advantages of a corporate fiduciary, and then by personal interviews mapped out with rigid precision endeavor to sign my prospect on the dotted line the same as the agent who sells him life insurance and rushes him to the examiner's office before he can change his mind.

Overcoming the Aversion

ANOTHER common difficulty in the question under discussion is the aversion of the average small town citizen to so called "red tape." If, for instance, I were to give the reasons so many smaller banks have declined to join the Federal Reserve System, one of these reasons would be the fear many country bank cashiers hold that to join the system would be but to invite intricate methods of operation. It is this

similar mistaken attitude that exists on the part of individuals toward the appointment of a corporate executor. It is almost a daily occurrence with bankers in smaller communities to receive *verbal instructions*, as to what disposition to make of money or securities in case of the death of some customer. The fact that the state specifically provides fixed and unalterable procedure for such distribution must sometimes be explained with the utmost patience.

There is one field of fiduciary service that is especially open to banks operating trust departments in smaller communities, that is to discourage the present general practice of life insurance being paid in large sums direct to beneficiaries. In instances this represents all of the estate left to the widow and children. Frequently it is dissipated within a short time because of inexperienced management. The

(Continued on page 611)

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By E. E. ROSSMOORE, C.P.A. (N.Y.)

Formerly chief of the special audit section, chief of the consolidated returns section, and lecturer on income and profits taxes in the Bureau of Internal Revenue.

467 problems with complete solutions, that cover Individuals, Partnerships, and Corporations. For each question in any return you can turn right to the problem which deals with it and get a complete and simple answer.

A man might read a dozen books on the present complicated income tax without understanding it. Ross-moore, by definite examples, shows you just how to figure your own problems or any problem that may be brought to you, instead of giving you elaborate general statements which you must yourself interpret and apply.

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*Send for catalog of books on
business.*

Voluntary or Living Trusts

By FRANK N. BANCROFT

Trust Officer, Colorado National Bank, Denver, Colo.

THE first essential of a trust is that the legal title to property shall be in one person called the trustee and that the equitable title shall be in another person, called the beneficiary. If both legal and equitable titles are at any time merged in the same person the trust is at once dissolved and the owner of the equitable title becomes the absolute owner of the trust property free from the trust.

Another essential of a trust is that by the terms of the trust instrument the trustee must have some active duties to perform concerning the trust property. If the trustee has no such active duties (and what constitutes an active duty is frequently a matter of considerable doubt), the trust is called a dry or passive trust and is at once dissolved and the legal title passes to the owner of the equitable title who becomes the absolute owner of the trust property free from the trust.

These trusts are either created by a will and are known as testamentary trusts that do not become operative until after the death of the testator, or by a written trust agreement and these are known as voluntary or living trusts because they become active during the lifetime of the creator of the trust.

These active trusts that require the trustee to perform an active duty whether created by will or by a voluntary trust agreement have been upheld and enforced by the laws and courts of England since the time of Henry VIII and by the Federal Courts of the United States and the courts of the several states that have adopted the common law of England.

When a person wishes to set aside any part or all of his property during his lifetime for the benefit of another person and does not wish to make an out and out gift of that property, he creates what is known as a living trust by a written agreement which transfers the legal title of the trust property to a trustee and specifically describes the duties and powers of the trustee, concerning the trust property and the income therefrom. The trustor can create such a living trust with a positive assurance that his wishes will be carried out by the courts of the United States and that the same courts will see to it that the trustee performs its duties honestly and conscientiously. Trustees must not only fulfill their legal obligations but they are held to the strictest observance of every moral obligation by the Courts of Chancery in England and the Courts of Equity and of law in the United States.

Having answered customer's question as to what living trusts are in some of their legal aspects, and having satisfied him that they are time honored, safe and legal, the banker can not ascertain his individual needs or personal whims and consider the practical aspects of the various forms of living trusts in general use to see just what form of trust will fit.

A trust department should have no ready-to-wear assortment of trusts. Every trust should be tailor-made. Unless the

banker has time to ascertain all of the facts relating to the customer's business, family relationships, financial condition and general needs and time to submit the plan to your customer's lawyer or your own for legal advice you should not recommend any plan, for if you do it will be a misfit. It will come back upon you, possibly with expensive legal complications, surely with complaint from a disappointed customer.

The first matter for your customer to decide in the creation of a living trust is whether it is to be revocable or irrevocable. The decision on this matter will largely determine whether or not the property of the trust will be taxed for Federal Estate Tax, State Inheritance Tax and Income Tax, and if taxed the amount.

Above all things, do not permit your customer in his desire to trim his sails to the passing breeze of present tax laws to forget that his main purpose in creating a living trust is to provide for the comfort of himself and wife in old age, for the support and education of his children, for the aid of a friend or a deserving charity.

A few years ago life insurance for any amount was exempt from the Federal Estate Tax and immediately life insurance agents became very active and induced many wealthy men to increase their insurance so as to provide a tax free cash fund with which to pay Federal and State Inheritance Taxes. The movement had scarcely begun before Congress amended the income tax law and taxed all life insurance in excess of \$40,000 upon the life of any individual irrespective of whether the policies were written before the new law was passed or not and irrespective of who the beneficiaries of the policies are.

A life insurance trust is at present a very popular form of a living trust. It has been stated by insurance men who have gathered the statistics that more than four hundred millions of dollars were paid out in life insurance each year; that of this amount 90 per cent was paid in lump sums; that 90 per cent of this 90 per cent paid in lump sums was expended or lost by the beneficiaries within a few years. To stop this waste insurance men are advocating two plans: One that they call the installment payment plan, and the other what they call the life insurance trust plan. The installment payment plan calls for a fixed amount of money at a fixed time and the contract cannot for any reason be varied after the death of the insured. No matter what the emergency in the affairs of the beneficiary may be no change in the contract can be made to meet it. Under the life insurance trust the trustor or the insured is at liberty to give the trustee banks very broad discretionary powers to meet any emergency that may at any time arise in the affairs of the beneficiary. It is also generally conceded that the interest return received from the partial payment insurance plan is something less than the average return that can be secured from funds loaned by the trustee bank.

The only difference between a life insurance trust and an ordinary trust is that the fund to be invested is derived from a life insurance policy rather than from some other source and this kind of a life insurance trust has been in use for many years. Recently a new feature has been added to life insurance trusts which has become the main feature of such trusts. When we now speak of a life insurance trust we refer to a trust created by an individual with a trustee bank whereby the trustor deposits with the trustee bank certain securities that belong to him and he agrees that the trustee bank shall collect the income from these securities and instead of distributing the income to beneficiaries the trustee bank pays the income to a life insurance company as premium upon a policy taken out upon the life of the insured or the trustor.

In this way the insured or the trustor immediately increases his estate for the benefit of his family or other beneficiaries, and frequently more than doubles his estate so that in the event of death the trustee bank instead of having the original securities to care for and distribute, will have the original securities plus the amount of the insurance collected, and all that the insured or the trustor has been obliged to do in order to accomplish this result has been to forego the receipt of the income upon his deposited securities. This is an appealing plan to many people and it should be encouraged by everyone favoring thrift.

A very important matter in connection with all living trusts is the matter of determining what discretionary powers shall be given to the trustee bank. Years ago when the kinds of securities were few and when individual trustees were selected to handle the trust, it was customary for the trustor to dictate, sometimes in very minute terms, as to the character of investments that should be made. Today when the number and character of investments has increased a hundred-fold and when banks and trust companies have made it their business to handle and select securities, it is not necessary, and in many cases it is unwise for trustors to limit the trustee to the character of the securities to be purchased for the trust estate. Most of the states have statutory laws specifying what securities are eligible for trust funds and sometimes even these hamper the trustee in the wise selection of securities. These state laws, however, are observed by all careful trustees unless the trust agreement expressly permits a broader field from which to select securities. In this day when taxation matters are being agitated in all of the states and in federal affairs, it is certain that changes in the taxation laws under which we live will be made. What might be a good investment today will probably be a bad one tomorrow as a result of changes in the taxation laws, and especially in the general property laws of each state. For this reason if for no other, the trustee should not be compelled by the terms of the trust agreement to invest in any one form of securities.



Push aside that Cumbersome, Stubborn Pile of Coins

Relieve your teller of the fussing, annoying task of sorting and computing coins. The Brandt will do it instantly, automatically and accurately, saving hours of time every day.

Promptness and accuracy are demanded by modern business. It is the complement of progress.

Over 27,000 users praise the Brandt Automatic Cashier. Whether making split change, handling a payroll or cashing checks, it makes service a matter of seconds. It outspeeds the fingers and the mind. Simply press one key with one finger and the desired coins are paid instantly.

Ask your secretary to mail the coupon now for copy of free book specially prepared for bankers.



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Send copy of book: "Five Questions Every Banker Should Answer."

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Your best efforts toward increasing the return upon your earning assets can be only half successful if you overlook the importance of converting mere idle figures into interest bearing balances.

Our continuously operating Transit Department and direct routing of collections result in a maximum of collected and available funds in the shortest possible time.

THE PHILADELPHIA NATIONAL BANK

Capital, Surplus and Undivided Profits, \$16,800,000

To Protect Unwary

(Continued from page 570)

deducting operating expenses and taxes, at least equal to the annual interest on the notes or bonds plus at least 3 per cent of the principal of the mortgage indebtedness.

And fourth, when the notes or bonds are secured by first mortgage upon city real estate or leasehold upon which a building is going to be erected according to the express terms of the mortgage, and when reasonably adequate provision has been made for financing the full completion of the building free and clear of any liens superior to the mortgage, and when the aggregate face value of the bonds or notes does not exceed 75 per cent of the fair market value of the mortgaged property, including the building to be erected.

9. Commercial paper maturing in not more than 12 months from the date of issue and issued within 3 months after the date of sale.

10. Industrial securities, where the solvency of the corporation can be established entirely without regard to its intangible assets.

Uniformity Is Desired

ANOTHER section exempts from the provisions of the bill all securities when sold or offered for sale in six different kinds of transactions. These exemptions are based on exemptions found in the various state securities laws and are made necessary in the Federal law by reason of the fact that there is no uniformity in the different state laws. They include those securities which experience has shown are usually free from fraud and loss.

The bill has several features which ought to commend it. It is what may be called a self-administered bill. It creates no jobs, it calls for no appropriation, it does not establish any new bureaus or departments at Washington. It confers upon no government officials any arbitrary or censorial authority in its administration. It does not center any more legislative power in Washington; on the contrary, it expressly recognizes the sovereignty and jurisdiction of the states in the suppression of commerce in fraudulent securities within their respective boundaries, and brings to their support the power of the Federal Government in the suppression of interstate commerce in such securities.

The theory of the bill may be found in section 12, which declares that:

"Nothing in this Act shall be so applied or construed as to nullify, supersede, or otherwise render invalid or inoperative any law of any state now in force or hereafter enacted to regulate the sale of securities within such state."

If this bill becomes a law it will drive dishonest promoters out of business; it will stop the promotion and sale of fraudulent and worthless securities through the channels of interstate commerce; it will save the American people hundreds of millions of dollars that are now being lost each year through the improvident investments of their savings in worthless securities; and it will encourage and strengthen the faith and confidence of the investing public in legitimate and sound securities.

Savings Bank Division Regional Meetings

THE first of five regional meetings of the Savings Bank Division of the American Bankers Association was held in Los Angeles on Feb. 27 and 28. During the next few months, similar conferences in New Orleans, Chicago, Seattle and New York are scheduled for the purpose of affording a discussion of the problems of savings banks and suggested means for expansion.

The Los Angeles meeting, which was marked by the diversity of subjects presented, was participated in by banks in the states of California, Nevada, Utah, Arizona and New Mexico.

The program at the first regional conference was as follows:

Introductory address by Charles H. Deppe, President, Savings Bank Division, presiding; "Newspapers," by Motley H. Flint, Vice-President, Pacific-Southwest Trust and Savings Bank, Los Angeles; "Employees Business-Getting Contests"; "Window Display Advertising," by E. F. Frost, in charge of Window Displays, Security Trust and Savings Bank, Los Angeles; "Efficient Service," three five-minutes talks by members of the American Institute of Banking; "School Savings," ten minute addresses: "From the School Superintendent's Point of View," Miss Helen S. Watson, Assistant Superintendent of Schools, Los Angeles; "From the Teacher's Point of View," Miss May Gearhart, Los Angeles Schools; "From Parents' Point of View," Mrs. Myrtle Matters, Vice-President, Parent-Teacher's Association; "From Bankers' Point of View," Emmanuel Cohen, Vice-President, Hellman Commercial Trust and Savings Bank, Los Angeles; "The Two Present School Savings Plans," Avery J. Gray, Supervisor, Los Angeles Banks School Savings Association; "The Great Divide," by H. C. Carr, President, California Bankers Association, Vice-President, First National Bank, Porterville, California; "Christmas Savings Club," by J. W. Lewis, Assistant Cashier, Union Bank and Trust Company, Los Angeles; "Direct by Mail," by Jean Blum, President, Blum's Advertising Agency, San Francisco. Feb. 28, "Industrial Savings," by H. A. Nater, Assistant Vice-President, Bank of Italy, Los Angeles; "Eliminating Waste in Advertising," by Ferris R. Miller, Manager, Better Business Bureau; "Trademarks, Signatures and Other Identifying Marks," by L. E. Townsend, Assistant Cashier, United Bank and Trust Company, San Francisco; "Specialty Advertising," by Louis L. Joseph, Past President, Advertising Specialty Ass'n; "Stimulation of Inactive Accounts," by Leo S. Chandler, Vice-President, California Bank, Los Angeles; "Conservation of Old Business," by Rogers W. Andrews, Vice-President, Citizens Trust and Savings Bank, Los Angeles; "The Banker and the Investing Public," by J. K. Baillie, Financial Editor, Los Angeles *Evening Express*.

George M. Reynolds of the Continental and Commercial Banks of Chicago was the principal speaker at the dinner, analyzing "The Financial Situation." J. A. Graves, President, Los Angeles Clearing House Association and President of the Merchants National Bank, presided.

The whole United States will be covered

by the five meetings under the auspices of the Savings Bank Division.

The meeting at New Orleans will be for Louisiana, Texas, Oklahoma, Arkansas, Tennessee, Mississippi, Alabama, Georgia, South Carolina and Florida.

The Chicago meeting will be for Illinois, Michigan, Wisconsin, Minnesota, North Dakota, South Dakota, Nebraska, Wyoming, Colorado, Kansas, Iowa, Missouri, Indiana, Ohio and Kentucky.

The Seattle meeting will cover Washington, Idaho, Montana and Oregon.

The New York meeting will be for New York, Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New Jersey, Delaware, Maryland, Virginia, West Virginia, North Carolina, Pennsylvania, and District of Columbia.

The tentative programs for the New Orleans and Chicago meetings as announced follow:

New Orleans, March 14—Introduction by Charles H. Deppe, President, Savings Bank Division; "School Savings," by Nicholas Bauer, Superintendent of Schools, New Orleans; "Industrial Savings," by Ernest Lee Jahncke, President of Jahncke Dry Docks, Inc., New Orleans; "Advertising," by F. W. Ellsworth, Vice-President, Hibernia Bank and Trust Company; "Solicitation, Service and Facilities for Customers," "Fraudulent Investments," Informal Dinner, Toastmaster, Charles Janview, Postmaster, New Orleans; Speaker, Oscar Wells, President, First National Bank, Birmingham, Second Vice-president, American Bankers Association.

Chicago, March 19—Welcome to Delegates, John S. Broeksmit, Chairman, Chicago Committee; "Reasons and Object for Regional Conference," Charles H. Deppe, President, Savings Bank Division; "Scope of Savings in This Region and the Opportunities for Development," W. Espey Albright, Deputy Manager, American Bankers Association; "Obligations of the Savings Bank to Society," "Agricultural Community and Savings," "Systems and Methods."

After luncheon the program calls for the discussion of "Promoting the Savings Business"; "Savers, Actual and Potential"; "The Personality of the Savings Department"; "The Promotion Budget"; "Newspaper Advertising"; "Direct by Mail"; "Outdoor Advertising"; "Lobby and Window Display"; "Personal Solicitation" and "Centralizing Responsibility." On the second day of the meeting the conference will consider: "Why Men Save"; "One Thing That Worked"; "Christmas Savings Club"; "Industrial Savings"; "School Savings"; "Savings and Life Insurance"; "Employees Contest"; "Direct by Mail Campaign"; "Pig Club"; "Calf Club"; "Corn Club" and the "Savings Outlook." The meeting will be concluded by a Question Box and Round Table discussion.

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The Facts and Figures Back of the $\frac{1}{4}$ of 1 Per Cent More Charged for AMERICAN EXPRESS TRAVELERS CHEQUES

2009 individuals reported American Express Travelers Cheques lost or stolen last year to the amount of \$493,055. \$81,057 of this amount was forged—a direct loss to the Company. Of the forgers, 157 were apprehended, convicted, and either sentenced or are now waiting trial. Of the lost cheques, \$203,946 were recovered. The balance, \$208,052, paid out to the losers by the Company, will not represent a total loss, as experience has shown that honest finders will return the cheques to us; while fear of detection will prevent the ordinary criminal from ever cashing them.

American Express Travelers Cheques cost the user 25c per \$100.00 more because they are worth more. Their unquestioned money value anywhere, at any time, alone, is worth the extra quarter of one per cent. The money protection which goes with this value, alone, is worth it. The intricate machinery necessary to sustain and guard these values demands this extra quarter of one per cent. The American Express protects the user of these cheques against loss or theft. It relieves his immediate embarrassment if the cheques are lost; or, if they are stolen or forged, it sees that the thief or forger is detected and punished. And in addition, American Express Travelers Cheques assure their users of the most human and helpful personal Service of the American Express chain of international offices abroad and more than 26,700 Express Offices in United States and Canada.

The representatives at these offices are locally well informed and are always glad to advise, suggest, or help travelers, on business or pleasure, carrying American Express Travelers Cheques. Loss or theft of Travelers Cheques may be reported to any of these offices and embarrassment relieved. These offices also cash American Express Travelers Cheques during the entire business day—thus saving the necessity of making some purchase in order to secure cash in exchange.

The American Express Company started the idea of Travelers Cheques. Their cheques

were the first on the market. They developed the whole Traveler Cheque system. Every new feature added has been theirs. Long ago, thru the never failing financial responsibility of the American Express Company, these cheques made themselves the insured money of all nations. Not satisfied with their dominant money protection features, the American Express Company added a costly Personal Service for the traveler. This Service is as magical in the variety and efficiency of the things it does for the American traveler anywhere, as the protection of his traveling funds is sure.

Criminal menaces to the travelers' funds multiply. The greatest problem of the American Express Company, however, is the travelers' own lack of care of his cheques. The professional criminal is hard pressed that attempts to appropriate American Express paper. He must be a skilful forger to use American Express Travelers Cheques. He knows that ceaselessly on his trail the American Express Company is operating a highly developed and very efficient secret service. But against failure of the general traveler in protecting his cheques—the Company has no redress.

500,000 American Travelers in 1923 changed more than \$120,000,000 into American Express Travelers Cheques—of which the greater percentage were used right here at home, by business and pleasure travelers in the United States. These figures were the record. 1924 will undoubtedly surpass them.

The American Express Company's Secret Service cooperates fully with Banks in the protection of bank paper. It cannot urge too strongly however upon the banks selling this paper the necessity of warning the purchaser against careless handling.

American Express Co.

65 Broadway, New York

OFFICES IN ALL THE PRINCIPAL CITIES

First Lady

(Continued from page 560)

coin for each season. But not so in the mint.

"We will gaze for years to come upon the Buffalo nickel, the Lincoln penny and the other well-known current coins," Miss O'Reilly observed. "Under the law we cannot change the design of the standard coins oftener than once in twenty-five years. Of course, there may be an occasional special coin to commemorate some great event or an outstanding American. This, however, takes a special act of Congress. It is the policy of the Treasury to discourage the special coins because it makes it easier for the counterfeiters and harder for us to protect the integrity of our money."

Additional Designs Unlikely

"IS it likely that we will have new denominations in our coins?"

"While there was some demand during the war period for a two-cent piece, this seems to have quieted down—now that most of the little taxes have been lifted. I do not think that there is any immediate likelihood of new coins being created. The present denominations seem to serve the needs of the country pretty well, although it is quite apparent that the Americans prefer to carry paper money to silver dollars and gold pieces.

Miss O'Reilly's information on coins and

precious metals is by no means confined to the borders of this country. One of her duties is the compilation of data showing the monetary statistics of the various nations of the world. In the most recent report, one may find just what stocks of money were held in Tanganyika, Beira, Uganda, Eritrea, Ashanti, Nigeria, Abyssinia, Sarawak, Taiwan, Swatow, Borneo or in Albania, although it is likely that a good number of those who vote in this good country never heard of these fair lands.

The writer learned that this information was practical as well as extensive when he inquired why India was the sink-hole of the world for gold and silver.

"Over in India a considerable part of the world's supply of the precious metals disappears from circulation," Miss O'Reilly recounted. "For hundreds of years it has been the fashion for women to wear rings, bracelets, bands and other ornaments, made out of gold and silver. To obtain the metals for these fantastic ornaments, the natives melt up the coins which find their way to this far-off land. Perhaps it is due to customs that have grown up through the centuries. But perhaps it is due to a little quirk in the law. An Indian woman may not inherit money from her husband, but there is nothing in the law which prevents her from keeping the ornaments which she had at the time of his demise. This is the only way in which an estate can be passed on from husband to wife."

Nothing is more impressive about Miss

O'Reilly than her modesty. She deprecated the suggestion that a story telling of her rise in the world of finance might serve as an inspiration to other women who are seeking a place of prominence in the banking world, but confessed to the belief that "there was no reason why a woman, equipped with a knowledge of economics and business operations, should not succeed." To a recent interviewer who inquired how long she had been with the Government, she responded, "Nineteen years, ever since I was eighty-nine."

Here is a story she told me on herself:

"When the Government issued its new standard silver coins a few years ago, you will recall that there were some rather critical remarks anent the beauty of the figures appearing on them. The quarter-dollar was stigmatized by the assertion that the figure of Liberty had a head the size of a pea with the limbs of Juno. The dollar was called 'ugly.' While the designs had been passed upon by the Commission of the Fine Arts and had been approved by the Treasury, we, of course, were sensible to the attack on the aesthetic features of the coins. One of the western newspapers reproduced a caricature of the figure appearing on the dollar. Right alongside appeared a photo of me which some photographer had snapped on the streets of Washington. The caption, appearing over the photos was, 'She's ugly, but everyone wants her.' My friends assured me they were referring to the dollar."

Kansas Conference

(Continued from page 578)

it is, and being widely read as we have ample evidence, gives the American Bankers Association a wholesome influence in fostering sound public opinion on economic subjects that is not equalled by that of any other single business organization in the country. We believe that it is truly making the Public Relations Commission more valuable to the Association and the Association more valuable to banking and to the nation."

The discussion that followed Mr. Cason's remarks indicated that keen interest had been aroused in the Commission's work, and many of the bankers present made arrangements to have their local papers supplied with its educational material.

The opening speaker at the afternoon session was D. H. Otis, director of the Agricultural Commission of the Association, who spoke on the subject, "The Banker and Agriculture." He outlined the greatly augmented activities of the Commission during the last two years. One of its chief activities, he explained, was the organization of a series of regional meetings being held in Federal Reserve districts throughout the country. They are called banker-farmer conferences, being attended by local bankers, who bring as many as possible of their farmer customers to the sessions.

The aim of the Commission, he emphasized, is not to attempt to teach the farmer technical methods in regard to the actual production of his crops, but to study with him the economic aspects of agriculture

with a view of developing better business management, marketing and financial methods. This work goes down to fundamentals. Particular stress is laid on the economic soundness of proper diversification and more scientific methods of farm accounting, so as to place the farmer on as solid a book-keeping and credit basis as any scientifically conducted industry or corporation.

The Reward of Banker-Farmer Cooperation

MR. OTIS made a detailed comparison of farming in a county in Wisconsin with one in Kansas. He showed how in one county diversification and other modern farm methods were more highly developed than in the other, and that as a result the former was producing a greater volume of bankable funds each year. By this means he brought home directly to the assembled bankers the lesson of their own direct professional interest in aiding the farmers of their communities to establish the most scientific and progressive policies in their operations.

The rest of the afternoon session was taken up by a discussion of the topics of "Bankers and the A. B. A.," opened by Tom J. Hartman, chairman of the Committee on Membership. Following his presentation, many of the bankers present made suggestions and proffers of help for increasing the effectiveness of the membership campaign.

The evening session was in the form of a banquet, tendered the visitors by the Kansas City Clearing House Association. Gov-

ernor W. J. Bailey of the Federal Reserve Bank of Kansas City delivered the chief address. He paid high tribute to the activities of the Association outlined at the day sessions, and expressed the belief that they were rendering an eminent service to the public. He dwelt on the need of a more fundamental economic understanding on the part of all classes of the country, and declared that the Association is meeting this need in considerable measure.

Another speaker was former President P. W. Goebel of Kansas City, who also expressed high regard for the present activities of the Association. He went on to discuss agricultural and banking conditions and to point out the need for thrift, sound business methods and economic understanding.

President Head who presided then introduced a number of presidents of State Associations from the territory represented. They pledged the support and cooperation of their organizations to carry on the activities of the American Bankers Association.

The detailed arrangements for the conference were carried out in highly efficient manner by the Kansas City Clearing House Association and the Chamber of Commerce, which provided every convenience and anticipated every need of the visitors.

In viewing the meeting after its conclusion, President Head expressed the highest gratification at the large attendance and at the keen interest manifested by the bankers of the Tenth Federal Reserve District, and said that he believed it had proved most effective in bringing the Association closer to its membership. It is planned to hold future meetings in other districts.

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Summer will soon be here, with its multitude of travel problems—questions of the best traveling funds to carry and the best Travel Service to use—for vacations, tours at home or abroad, motor trips, week-ends, etc.

If any of your patrons are going on an Independent Tour, the American Express Travel Department helps them plan and lay out their trip—attends to the purchase of all railroad and steamship tickets in advance—secures all hotel reservations—gives information as to passports and visas—assures them of being met wherever they go, at all principal foreign cities or frontier stations, by a uniformed and experienced guide and interpreter—arranges for the delivery of mail or cable—puts them in intimate touch with local trade or credit conditions or business opportunities—makes it easy for them to meet the right people—straightens chance legal difficulties.

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500,000 individuals carried more than \$120,000,000 worth of American Express Travelers Cheques in 1923—the larger per cent of which was used in the United States. The great majority of these individuals were placed, by the Banks of the country, under the protecting and guiding care of American Express Travel experts.

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OFFICES IN ALL THE PRINCIPAL CITIES

Reserve Balances

(Continued from page 550)

nothing to the system and should not burden the system with credit facilities for such non-member banks to the detriment of member banks, who furnish the reserves upon which the credit of the Federal Reserve system is based."

"What in your opinion can be done to make the system more attractive to the smaller banks?"

"I don't think anything can be added to the attractiveness of the Federal Reserve system that will be of especial benefit to small banks. The benefits of the system are so general and so far-reaching in their scope that these should make it attractive to smaller banks as it now is. I am quite convinced that had the smaller banks of the Northwest been, wherever eligible, members of the system, we would not now be experiencing the great difficulties in the Northwest and the Southwest that we are."

Reserves in Their Own Vaults

"AS a possible means of attracting more banks to the system and making some of them now included as members more contented, there have been three suggestions to gain currency. What do you think of the proposal to permit banks not located in reserve cities to carry not to exceed one-third of their reserves in their own vaults in the form of Federal Reserve notes?"

"As I view it, this would be—to that extent—no reserve at all," Governor Crisinger responded. "The reserves required by a Federal Reserve bank are made much

lower by the Act than the reserves required under the old system of banking. The very word 'reserve' means that there must be an actual reserve, and in the amount required by the Act; that is to say, a cash reserve. To permit the carrying of a part of the cash of a bank in its own vaults, to my mind, would defeat the general purposes of the Act—that is, of mobilizing the cash reserves of the country upon which the credit of the country can be based."

"It has been suggested that country banks ought to be allowed to deduct items in transit from their liabilities in computing their reserves."

"Such a practice would be open to abuse and cannot be regarded generally as sound practice."

"What do you think of the movement, which has gained some impetus, for a 'more equitable distribution' of the earnings of the Federal Reserve system when they run in excess of 6 per cent?"

"It is possible that in some years the banks might pay, when they earn it, an additional

dividend, say of 3 per cent, but even this is looked upon as being unsound practice. The Federal Reserve system was designed primarily to serve the country—not to make money. The banks in normal times will do well to earn a 6 per cent dividend and, to my mind, nothing should be added in the way of overhead charges on Federal Reserve banks that can possibly be avoided, for I believe that to require the banks to make money in excess of a 6 per cent dividend is fundamentally unsound and should not be encouraged, but an extra 3 per cent dividend, when the earnings happen to be sufficient to make such a dividend, is probably the least objectionable extra distribution of earnings that could be made."

If Two Per Cent Were Paid

"I HAVE had prepared a table showing just what would be the result if the Reserve Board had to pay 2 per cent interest on reserve balances. Here's how it would have worked out for 1923:

Federal Reserve Bank	Net Earnings	Actual Dividends Paid	Distribution of Net Earnings Transferred to Surplus	Franchise Tax Paid	Amount required to pay 2% interest on reserve deposits of member banks	Deficiency in net earnings if payment of 2% interest was paid
Boston	\$ 1,252,135	\$ 480,267	\$ 77,187	\$ 694,681	\$ 2,516,440	\$ 1,264,305
New York	3,043,679	1,749,239	129,444	1,164,996	2,787,240	10,743,561
Philadelphia	2,177,837	582,292	1,178,588	416,957	2,282,900	105,063
Cleveland	921,221	725,626	195,595		3,167,400	2,246,179
Richmond	1,092,843	342,295	384,404	366,144	1,216,580	123,737
Atlanta	352,179	264,622	8,756	78,801	1,088,840	736,661
Chicago	1,178,355	904,371	27,398	246,586	5,512,720	4,334,365
St. Louis	1,182,163	296,810	407,070	478,283	1,399,500	217,337
Minneapolis	325,455	212,733	11,272	101,450	955,620	630,165
Kansas City	347,711	275,313	7,240		1,611,200	1,263,489
Dallas	332,282	251,429	80,853	65,158	1,040,420	708,138
San Francisco ..	505,426	467,720	37,706		2,871,280	2,365,854
Total	\$12,711,286	\$6,552,717	\$2,545,513	\$3,613,056	\$37,450,140	\$24,738,854

*Franchise tax paid in 1921 amounted to \$63,104,139; in 1922 it totaled \$7,450,543.
Federal Reserve Board, January 29, 1924.

U. S. Competition

(Continued from page 556)

the holders of the 1918 War Savings Certificates in this district, and the total sales of Treasury Savings Certificates during the year amounted to only approximately \$10,000,000.

"In spite of the above facts, it has been claimed that the sale of Treasury Savings Certificates has been the cause of many failures throughout this territory. I think a careful analysis of the facts as stated shows how unsound such claims are in face of the real figures on bank deposits, existing bank conditions, the number of bank failures which have steadily increased since 1920, the large amount of money put into this territory by various agencies, and the small amount actually invested in Treasury Savings Certificates during the last calendar year. Failures have occurred in increasing numbers in this territory, but they have been inevitable. Withdrawals have naturally followed the failures, and part of the money withdrawn has undoubtedly been invested in Treasury Savings Certificates. However, where confidence is lacking, people will not entrust the keeping of their money, and it is natural that they should turn to an investment of unquestioned soundness during crises of this character.

"Treasury Savings Certificates yield 4½

per cent per annum, compounded semi-annually, if held to maturity, which is five years from date of purchase. If cashed before maturity they yield only 3½ per cent compounded semi-annually, on the purchase price. The claim that these certificates pay a higher rate of interest than bank deposits and are in direct competition with the banks is not sustained. The average interest rate on savings bank deposits is 4 per cent, compounded semi-annually, and depositors can withdraw their money at the end of six months without losing the interest. Many Treasury Savings Certificates are redeemed before maturity, and the holders then receive not the 4½ per cent rate but the 3½ per cent rate, which is ½ of 1 per cent less than is paid by the average savings bank. There is no competition between Treasury Savings Certificates and savings bank deposits, because one is a 5-year investment and the other is a 6-month deposit. The interest on the savings certificates at the rate of 4½ per cent, compounded semi-annually, is only paid at maturity as accrued interest, while savings bank depositors may collect their interest every six months.

"The sale of Treasury Savings Certificates has reached such proportions as to become a factor in our national financing. The money which is realized from their sale is the cheapest money the Government is receiving. Many Treasury Savings Certificates are redeemed before maturity costing the Govern-

ment only 3½ per cent, the average cost being less than 4 per cent. This is sound financing from a purely cost point of view."

The sales of the Treasury Savings Certificates by Federal Reserve districts for 1923 and for the month of December were as follows:

	December	1923
First	\$769,703	\$4,583,518
Second	1,601,561	9,609,232
Third	1,432,305	8,154,969
Fourth	4,970,307	31,936,831
Fifth	1,495,240	8,688,178
Sixth	623,901	5,237,667
Seventh	6,245,386	26,121,780
Eighth	2,325,764	15,069,483
Ninth	2,404,339	9,982,168
Tenth	3,998,742	23,859,343
Eleventh	3,287,270	11,639,843
Twelfth	1,931,357	14,352,547

Montana ranks first among the states in per capita purchases during 1923, with 6.19. Kansas is second. The certificates have had a greater appeal in the West and Middle West than in other sections. The state of New York purchased only \$8,104,771 during the past year, while Ohio bought \$24,588,265 of the baby bonds.

Hollis E. Gray, vice-president of the American Bankers Association for Vermont, has been elected President of the Winooski Savings Bank of Winooski. Mr. Gray entered the bank, which is now sixth in size in Vermont, as a clerk twenty years ago, and has advanced step by step to the presidency.

Wall G. Coapman of Milwaukee is the new secretary of the Wisconsin Bankers Association.

The Condition of Business

Marked Recovery of Business in January Continued into February. Commercial Loans and Reserve Bank Credit Higher in New York District. Freight Traffic Heavy. Farm Implement and Mail Order Sales Increase. Business Profits Large in 1923.

ADDITIONAL reports of production and trade in January give more complete evidence of the substantial recovery in business during that month, and figures thus far available for February generally indicate a continued high level of business activity. Production of basic commodities increased sharply in January, as is evidenced by a rise in the Federal Reserve Board's index of production, which allows for seasonal variations, from 111 per cent of 1919 average to 120 per cent, or to approximately the same level as a year ago. A particularly large advance was reported in steel ingot output and a much smaller increase in pig iron, despite which there was a further increase in the volume of business carried forward on the books of the Steel Corporation. Other noteworthy advances were in mining of bituminous coal and copper and in consumption of cotton by domestic mills. Exports of cotton, however, declined sharply in January following very heavy shipments in the preceding five months, which had tended to make good the deficiency in stocks resulting from the unusually small movement last summer.

Indications of larger primary distribution of goods are found in an increase in wholesale trade to a level slightly higher than a year ago, and a marked gain in railroad freight shipments in January and February. With the exception of mail order sales, however, indexes of retail trade and general business activity in January were either unchanged or slightly lower.

Prices of several basic commodities used in industry, including metals, hides, fuels and building materials, advanced in January or during the early part of February, while cotton and silk declined.

Bank Credit

IN the New York district loans made largely for commercial purposes by member banks in leading cities rose about \$100,000,000 between the middle of January and the middle of February, thereby cancelling about two-thirds of the decline previously reported since October. The volume of reserve bank credit required in the New York district also increased sharply toward the end of January, and on Feb. 13 the Reserve Bank's earnings assets of \$258,000,000 were nearly double the low total reached in the last week of January. Later in February there was some reduction in the volume of reserve credit extended, following return flow of funds from the interior.

In other districts, however, commercial loans of reporting banks continued to decline until the end of January, but increased somewhat in the first half of February. The volume of reserve bank credit required was

also fairly constant during this period in other districts.

Accompanying increased commercial demands in the East, money rates were somewhat firmer in February, although the firmer tendency was perhaps less marked than a year ago, when business was expanding very rapidly. The prevailing open market rate for prime commercial paper remained $4\frac{3}{4}$ per cent in the East, but dealers reported fewer sales under the prevailing rate. In the West a considerable amount of paper continued to be sold at $4\frac{1}{2}$ per cent.

Freight Traffic

THE increase in railroad shipments, particularly of merchandise and miscellaneous goods, which began toward the end of



Harris & Ewing

President Coolidge, accompanied by Secretary Hoover, arriving at conference to discuss business conditions in Northwest.

January, continued in February, although the experience of several previous years would have suggested a slight seasonal decline. In the first three weeks of February merchandise loadings as well as total shipments averaged approximately 10 per cent larger than a year ago, which is considerably more than the normal rate of growth from year to year. Accompanying the increase in traffic, the number of surplus cars and locomotives declined, but was still substantially larger than a year ago, while a smaller part of equipment was in need of repair.

New Financing

NEW security offerings during the early part of February were the largest since January of last year, and were widely distributed among domestic corporation, municipal and foreign issues. The largest foreign issue was \$150,000,000 thirty-year bonds of the Japanese Government, offered jointly in this country and in Holland at a price to yield 7.10 per cent, which was slightly higher than the yield on the £25,000,000 portion of the same loan offered in London. The proceeds of the combined issues are to be used in part to retire the outstanding balance of the sterling loan of 1925 and in part to finance the Japanese Government's reconstruction program, which involves the expenditure of about \$700,000,000, of which it is expected that about \$300,000,000 will be expended for materials and supplies outside of Japan, principally in the United States.

While the American investment market gained the larger portion of the Japanese loan, it lost to a Canadian banking syndicate an issue of \$50,000,000 bonds of the Canadian National Railways. The success of the Canadian syndicate in securing the loan is an indication of the progress made by Canada toward financing her own capital requirements without recourse to London, as before the war, or, more recently, to New York.

Automobiles

OUTPUT of motor vehicles in January amounted to 345,000 cars and trucks, the largest since October, and reports during February indicated a further increase in production. Since the first of the year, output has run probably 35 per cent ahead of last year and for the first quarter of 1924 is expected to approach 1,100,000 vehicles. Sales of automobiles have been stimulated by the motor shows and mild winter conditions in many sections. During February prices of several leading cars were advanced \$15 to \$100 and other companies are considering similar action in an effort to increase profits, which in 1923 do not appear to have kept pace with increasing production. Income statements of automobile companies thus far published show that net profits in 1923 averaged only about one-third larger than in 1922, while motor production increased one-half.

Although very large amounts of credit have been extended in the past few years to finance automobile purchases, the losses sustained by leading motor acceptance companies have been negligible. Since the General Motors Acceptance Corporation was established in 1919 it has extended more than \$500,000,000 of credit to wholesale and retail purchasers of General Motors' prod-



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ucts, or between one-third and one-half of all net sales. Total losses charged off during these five years are reported equal to only 2/10 of 1 per cent of the accommodation extended.

Agriculture

EVIDENCES of an increase recently in the purchasing power of the rural population are found in increased sales by farm implement producers and mail order houses. The New York Reserve Bank's index of mail order sales, which in 1921 averaged only 70 per cent of estimated normal and increased to 78 per cent in 1922 rose to 93 per cent for 1923. Based partly on monthly reports from 133 manufacturers, the Reserve Bank of Chicago estimates sales of agricultural machinery and equipment in 1923 at \$267,000,000 or about 10 per cent larger in value than in 1922, due probably in part however to higher prices.

A survey by *Dun's Review* of the current situation in the farm implement trade indicates widely varying conditions in different parts of the country. Substantial increases in sales compared with 1923 are reported in districts which practice diversified farming or where cotton yielded well last year. On the other hand, business is slack in strictly wheat growing sections or where cotton crops were poor. The preliminary report of the United States Tariff Commission indicating that the cost of producing Spring wheat in this country, based on average cost of the three years 1921-1923, ranged from a minimum of 96 cents a bushel to \$1.96, while in Canada it varied from 60 cents to \$1.64, calls attention to the great advantage which low-cost producers enjoy in competing for world markets. Of interest in this connection are reports that the acreage planted to winter wheat in this country has been reduced about 15 per cent.

Building

FIGURES for building permits and contracts actually awarded agree in indicating a continued heavy volume of building since October, due in part probably to mild weather conditions which have favored the movement to spread construction work over a larger part of the year. Building contracts awarded in 36 Eastern states increased slightly in January and were 23 per cent larger than in January a year ago, which is about the same percentage increase shown in the three preceding months. The New York Reserve Bank's index of the volume of building in 158 cities, which during the last quarter of 1923 averaged 56 per cent above estimated normal, increased in January to 66 per cent above normal and was within 9 per cent of the high point of last March, allowing for seasonal differences as well as year to year growth and price changes.

Following a decline of 13 per cent since last April, the price of building materials advanced 2 per cent in January. Building wages also averaged somewhat higher due partly to increases in New York City. As a result, the composite cost of building as computed by the Reserve Bank of New York increased to 193 per cent of 1913 cost but was still 4 per cent below the May high point of last year.

Employment and Wages

DUE chiefly to reduced forces at railroad equipment plants and repair shops, textile mills, and in the food industries, factory employment in New York State further declined 1 per cent in January to a level somewhat lower than a year ago and about 6 per cent below the high point of last year. The Federal Reserve Board's employment index for the country as a whole shows essentially the same changes.

Earnings of factory operatives generally declined slightly in January, due to reduction in working time. The substantial seasonal recovery in the clothing industry increased earnings in New York City, however. In general, factory wage rates were unchanged. During February, bituminous miners and operators in the central competitive field extended the present agreement relative to wages and working conditions for a period of three years.

Business Profits

STATISTICS of production, trade, and general business activity indicate that the total volume of trade was larger in 1923 than in any of the preceding four years, being slightly larger than in 1919 and perhaps 15 per cent larger than in 1921. A study published in the March *Monthly Review* of the Federal Reserve Bank of New York shows that the total net profits of 203 companies, whose income statements for the years 1919 to 1923 were available, were also higher in 1923 than at any time since 1919 and were in fact about four times larger than in 1921, a much wider variation than shown in the volume of trade.

The Bank's study included 109 industrial and commercial companies divided into eight separate groups, and 94 public utility companies of two general classes. A summary of the results is shown below, the figures for 1919 being taken as 100 in each case.

Net Profits in 1919 = 100					
Industrial Group	No. of Concerns	1920	1921	1922	1923
Steel and equipment..	11	134	36	45	136
Motors and accessories	15	68	0	78	104
Oils	8	136	81	107	77
Food and food products	16	122	0	90	121
Clothing (inc. leather and textiles)	10	67	50	78	97
Tobacco	6	113	135	160	156
Miscellaneous industrial	31	95	41	83	117
Stores	12	21	0	84	110
Total 8 groups.....	109	93	16	79	118
Telephones	70	106	139	163	177
Other public utilities..	24	114	107	145	168
Total 10 groups....	203	97	39	96	130

Variations in profits during this period were wider in some groups than in others. Profits of "stores" in the above compilation fell sharply in 1920 and 1921, due to the inclusion of large mail order houses whose sales declined during those years accompanying the decrease in purchasing power of the rural population. The deficit shown for the food products group in 1920 reflects chiefly losses of sugar producers and packing houses resulting from lower prices for sugar and meat products. Several large chain store systems, as well as the tobacco and public utility groups, show steadily increasing profit.

Railway Earnings

THE net operating income of Class I railroads in 1923 was \$977,000,000, the largest since 1916, and about \$200,000,000 more than in 1922. The increase resulted chiefly from the unprecedented volume of freight carried which was 22 per cent larger than in 1922. The increase in freight revenue, however, was only 15 per cent since the general level of freight rates averaged somewhat lower in 1923. Total operating expenses were 11 per cent higher, due mainly to increased expenditures for maintenance of way and structures, repair of equipment, and taxes.

Although earnings of Class I roads were much larger than in 1922 and 1921 and were equal to 5.10 per cent on their minimum tentative valuation as fixed by the Interstate Commerce Commission, they still fell below the 5.75 per cent rate set by the Commission as a fair return on capital invested. For the entire 40 months' period from the expiration on September 1, 1920 of the six months' guaranty provided by the Transportation Act to December 1923, the net operating income for all Class I roads was equivalent to only 4.08 per cent of their valuation, or more than a billion dollars short of the fair return. After small earnings or deficits during 1920 and the early months of 1921, earnings of eastern and southern roads increased in 1922 as a result of more active business and heavy traffic preceding the coal strike of that year, but were later curtailed by the shopmen's strike. Western roads fared better than the other groups in 1921 but fared worse in 1923 due partly to reduction in rates on agricultural products.

Trust Departments in Small Communities

(Continued from page 599)

bulk of life insurance policies are written with the knowledge of the banker in the community and, except in cases of business necessity, it would be better to suggest that the insurance be made payable to a responsible bank as trustee for the beneficiaries.

As the law now stands, in our state a corporation, state or national, must have a capital stock of at least \$50,000 to act in fiduciary capacities.

Corporate trust service is just as necessary in smaller places as it is in cities, and because the community is not large enough to profitably attract as much as \$50,000 capital in one trust organization, the community should not be deprived of a local corporate fiduciary. Any state or national bank should be authorized to act in a fiduciary capacity, so long as it has met the capital stock requirements for commercial banks, provided however that an institution, whose capital stock does not meet the present legal requirements, should be obligated to furnish adequate surety bond for the proper protection of trust funds within its keeping.

R. LaMotte Russell, president, Manchester Trust Company, South Manchester, Conn., has been appointed a member of the Agricultural Commission of the American Bankers Association to represent the First Federal Reserve District, succeeding John T. Manson, who resigned.

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Investment of Trust Funds

By THOS. H. OWEN

American National Bank, Oklahoma City, Okla.

FUNDS held under a court trust must be invested under orders of the court. Funds held under a trust instrument, specifying the character of investment, must be invested in strict accordance with the terms of that instrument. Where the instrument authorizes the bank to exercise a discretion in the matter of investments, the funds should be invested in those classes of securities approved by the directors of the bank. Where the instrument creating the trust does not specify the character of investments to be made, and does not expressly vest in the bank a discretion in the matter, the funds must be invested in such securities as fiduciaries in the state in which the bank is located may lawfully invest.

The statute of Oklahoma does not specify the character of securities in which a guardian may invest funds of the ward. Our statute provides,

"When it appears to the satisfaction of the court, upon the petition of the guardian, that for the benefit of his ward his real or personal estate, or some part thereof, should be sold, and the proceeds thereof put out at interest, or invested in some productive stock, or in the improvement or security of any other real estate of the ward, his guardian may sell the same for such purpose, upon obtaining an order therefor."

Under another section, after making provision for the expenses of the ward out of the proceeds of the sale, it is provided,

"The guardian must put out the residue, if any, on interest, or invest it in the best manner in his power, until the capital is wanted for the maintenance of the ward."

Referring to executors and administrators, it is provided,

"Pending the settlement of any estate on the petition of any party interested therein, the county court may order any money in the hands of the executor or administrators to be invested for the benefit of the estate, in securities of the United States."

Under Orders of the Court

IN compliance with these statutes we invest funds held in a court trust under orders of the court approving the character of the securities, such securities first having the approval of our board of directors. In this connection, it might be proper to state that we adhere to the universal rule, safety is the primary object to be secured in the investment of trust funds. The duty imposed is, obviously, that the trustee keep the estate invested in such a way as not only to be safe, but also as to make it productive of at least a reasonable income; however, the trustee is not chargeable with an income that cannot be realized without hazard to the principal. A trustee is required to employ such diligence and prudence in the care and management as, in general, prudent men of discretion and intelligence in such matters employ in their own affairs. What constitutes the care and diligence exacted of the trustee depends on the attendant circumstances. It is by no means always easy

to determine what investment a trustee may not make in the exercise of discretion without incurring liability in case of loss. It is not to be understood that the trustee will be excused in all cases of loss by showing that persons of care and prudence in the management of their own affairs made investments of like character and were disappointed in the results. Prudent men dealing with their own means might invest them in speculative securities or doubtful investments promising large profits. The rule applicable to trustees excludes all speculation. The trustee may not invest trust funds in speculative securities of any character. "Safety first" must be the motto of the trustee. If trust funds are invested in property, it should be property which yields an actual income, and which has a fixed and certain valuation founded on that income, and not depending upon any contingency.

It seems to be the settled rule of the courts of England that the trustee can protect himself only by investing trust funds in real estate or governmental securities. I know of no such rule in the courts of this country, but our courts, adhering closely to the principle that safety is the primary object to be secured in the investment of trust funds, have pretty generally favored real estate and municipal securities, and have forbidden all speculative risks. When a trustee makes an investment in the exercise of discretion, which is not expressly directed by the instrument creating the trust, or authorized by law, such trustee is held responsible in case of loss. It is not sufficient in such case for the trustee to show good faith, or apparent caution or prudence.

When Should Trust Securities Be Disposed Of?

THE trustee should not retain any investment not included in any of those classes in which such trustee may under the law invest trust funds. The fact that the creator of the trust himself made any such investment will not justify the trustee in retaining it.

In my opinion, under the general rule of our courts, a trustee may not continue investments made by the creator of the trust when such investments are not of the nature of those recognized by the law of the state as proper investments for trust funds, unless, of course, he is given express authority by the instrument creating the trust.

Where the instrument creating the trust does not give the trustee the discretion and does not authorize a change of investments already made, such trustee may be subjected to liability for any loss resulting from any change that is made, unless it clearly appears there were reasonable grounds to believe that a change was necessary and

advisable, and that the trustee acted with the utmost good faith and with prudence in disposing of the original investment and making a new one.

Charging a Commission on the Purchase of Securities

AS to whether a commission should be charged on the purchase of securities is one of opinion or policy. In my opinion no separate charge should be made for the purchase. In fixing the compensation of trustees under court trusts, the Court takes into consideration all the services rendered and the results obtained. I think the same rule should prevail as to all trusts, an annual fee should be charged, taking into consideration all services rendered.

Whether it is safe to purchase securities from the parent bank is a question of policy rather than of law. I am not unmindful of the universal rule that trustees cannot make a profit from trust funds committed to them by using the money in any kind of speculation. The trustee must account for all profits and must bear all losses resulting from such use. Neither can the trustee use the money in his own business. But this rule does not preclude the purchase of securities from the bank with funds held in the trust department. All investments must be made in good faith, exercising caution and prudence as to the safety of the security.

In my opinion where the parent institution has a properly organized investment department, the safety of the trust fund is best secured by the purchase from the parent institution, rather than from outside concerns. In our own investment department any interest in any security we offer is first bought and paid for by us, and the fact that our own funds have been so invested is evidence of our good faith and confidence in the safety of the investment. No investment is made by our investment department until it has first been passed on by the board of directors.

In case this investment is in the form of municipal bonds, the purpose for which the bonds were issued, the amount of indebtedness which the town owes, the character of population and stability of the town, are all very carefully examined into, by an expert whom we have employed for that purpose, before any commitments are taken on by our investment department. When we are satisfied that the bonds will be promptly taken care of on their maturity dates, we superintend the proceedings leading up to the issuance of the bonds, so that when the bonds are purchased we are personally familiar with every step that has been taken, and have satisfied ourselves that the bonds have been legally issued. Should we have purchased these bonds from an outside

dealer, it would not be possible for us to be so familiar with the proceedings. In many cases the transcript of such proceedings does not disclose all of the essential facts.

If the investment is in the form of real estate mortgage bonds, much the same procedure is taken as in municipal securities. Our expert visits the town where the security to be offered is located, analyzes the whole situation, not only from the standpoint of physical value of the real estate offered as security, but also considers very carefully the character of the owners of the property, their success in prior enterprises, and their ability to pay from sources outside of the security offered. He also gives consideration to the prospect for success of the new enterprise, if it be a new building, and if it is an old building on which the loan is offered, he considers the history of the property for a number of years back to ascertain what the results have been. When this has all been done, if the proposition looks like a safe one, the title is examined and approved by our legal department, and this department also passes on the form of all bonds, mortgages and other documents in connection with the loan.

After the Loan is on the Books

AFTER the loan is on our books, we have a complete system whereby in the case of mortgage loans we see that the taxes are kept paid; that annual payments are made on the principal or to the sinking fund; that the insurance, both fire and tornado, is in the proper amount and placed in suitable companies to protect our loan; that the premises are kept in reasonable repair and all things done according to the terms of the mortgage. There would be no possible way for us to insure that all this complete work was done in protecting securities which we might purchase from someone else. In the case of municipal bonds, we see each year that the tax authorities make the proper assessment to take care of the interest and sinking fund charges.

To me it is obvious that securities from loans made under these conditions are safer than any security we would be likely to purchase from outside concerns. In many cases the investment from trust funds is in comparatively small sums, and it would not be practical to make as careful an investigation of all the elements going to make up the safety of a loan in purchasing small amounts as is the case where we are the originators of the whole transaction. These are some of the reasons for my opinion that it is safer for us, at least, to purchase securities from our parent bank.

What would be the effect of advertising to your prospective clients or customers that you do not invest trust funds in securities owned by your parent bank, but confine the investment of such funds to securities purchased from outside companies? It occurs to me that such an advertisement would convey the impression that you did not trust your own investment department. If you cannot trust the bank in making investments of its own funds, why should you expect the public to repose confidence in the trust department of the bank?

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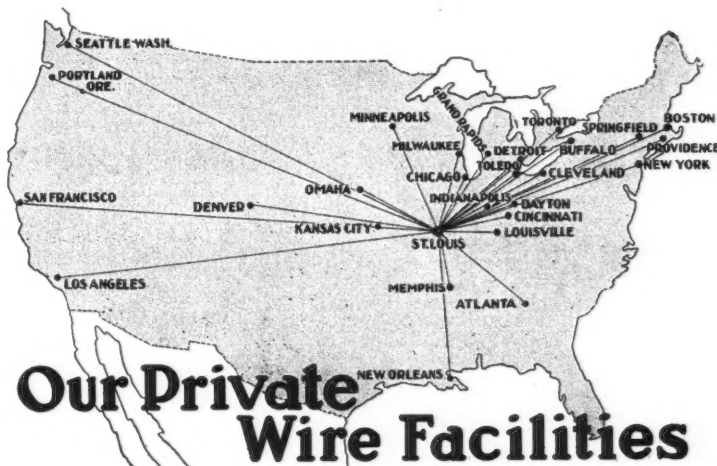
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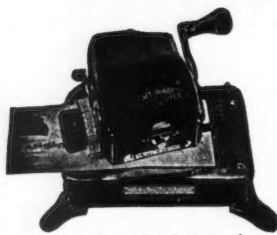
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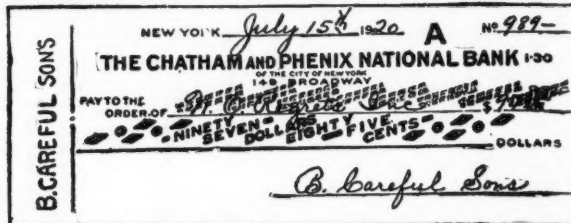


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Convention Calendar

DATE	ASSOCIATION	PLACE
March 17-18	Central States Conference of Bankers Association Officers	Indianapolis
March 19-20	Savings Bank Division Conference	Chicago
April 14-16	Reserve City Bankers Association	Dallas
April 22-23	Louisiana	Alexandria
April 24-26	Georgia	Augusta
April 25-26	Florida	Orlando
April 28-May 1	Spring Meeting, Executive Council, A. B. A.	Augusta, Ga.
April 29-30	Arkansas	Little Rock
May 5-8	Chamber of Commerce, U. S. A.	Cleveland
May 6-7	Mississippi	Columbus
May 6-8	Texas	Austin
May 8-9	Tennessee	Memphis
May 16-17	Alabama	Birmingham
May 20-21	Kansas	Kansas City*
May 20-21	Missouri	Kansas City*
May 21-23	Pennsylvania	Philadelphia
May 22-24	Virginia	Norfolk
May 27-28	Oklahoma	Sulphur
June 4-6	National Foreign Trade Council	Boston
June 4-6	North Carolina	Asheville
June 4-7	California	Yosemite Valley
June 10-13	National Association of Credit Men	Buffalo
June 13-14	Oregon	Seaside
June 13-14	Utah	Ogden
June 16-18	Iowa	Mason City
June 17-20	Michigan	Grand Haven
June 17-18	South Dakota	Huron
June 18-20	Ohio	Cedar Point
June 19-20	Illinois	Decatur
June 20-21	Colorado	Boulder
June 20-21	New England. So. Poland, Me.	
June 23-25	New York	Montreal
June 24-25	Wisconsin	Milwaukee
June 26-27	North Dakota	Fargo
July 15-18	American Institute of Banking	Baltimore
	Minnesota	St. Paul
Sept. 29-Oct. 2	American Bankers Association	Chicago

*Joint session on one day.

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